Austria ... Sch 18	Indonesia ... Rp 2500	Portugal ... Esc 80
Bahrain ... Din 0.650	Italy ... L 1300	S. Arabia ... Rls 6.00
Belgium ... BFr 38	Japan ... Y 550	Singapore ... S$ 4.10
Canada ... C$2.00	Jordan ... Fils 500	Spain ... Pta 110
Cyprus ... C£0.80	Kuwait ... Fils 500	Sri Lanka ... Rup 30
Denmark ... Dkr 7.25	Lebanon ... £L6.00	Sweden ... Skr 6.50
Egypt ... £E1.00	Luxembourg ... LFr 38	Switzerland SFr 2.20
Finland ... Fmk 8.00	Malaysia ... Rm 4.25	Taiwan ... NT $35
France ... FFr 6.00	Mexico ... Pes 300	Tunisia ... Din 0.600
Germany ... DM 2.20	Morocco ... Dh 9.00	Turkey ... L 210
Greece ... Dr 70	Netherlands ... Fl 2.50	U.A.E. ... Dh 6.50
Hong Kong ... HK$ 12	Norway ... Nkr 6.00	U.S.A. ... $1.50
India ... Rup 15	Philippines ... Pes 20	

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,529 — Monday January 21 1985 — D 8523 B

Group of Five tries to unnerve dealers, Page 2

World news | Business summary

Mitterrand pledge on Caledonian presence

President Mitterrand announced that the National Assembly would be recalled to extend the state of emergency declared in France's troubled South Pacific island territory.

Speaking on television after a visit to the islands, he said that France would strengthen its military base in the territory and would maintain its "role and strategic presence" in the area.

He believes that the reinforcement of France's military base is not inconsistent with the island's prospective move to independence "in association" with France. Page 12

Doubt on arms talks

New chief U.S. arms negotiator Max Kampelman has co-written an article for the New York Times expressing strong doubts that a breakthrough with the Soviet Union is possible in the near future. Page 2

Ruhr cars back

Private cars were allowed back on the streets of some cities in the Ruhr, West Germany's industrial heartland, after a change in the weather reduced levels of sulphur dioxide and other pollutants trapped under a ceiling of immobile air. Page 3

Cyprus talks falter

United Nations Secretary General Javier Perez de Cuellar led a desperate attempt to save negotiations for a settlement to the Cyprus problem between Cypriot President Spyros Kyprianou and Turkish Cypriot leader Raouf Denktash. Page 3

Gulf war talks

Foreign Ministers or senior officials from seven Arab countries met in Baghdad to discuss a fresh plan to end the 52-month-old Iran-Iraq war.

Prague visit

New Soviet Defence Minister Marshal Sergei Sokolov left for Prague on his first official engagement in the post after last month succeeding the late Dmitry Ustinov.

Levesque wins

Premier René Levesque won his fight to have the ruling Parti Quebecois shelve the issue of Quebec's independence indefinitely. Page 2

Ethiopian rebel claim

Ethiopian rebels claim to have killed 550 government soldiers when they overran an army garrisison and ambushed a convoy of troops at Dabat in the Gondor provence

34 die in blast

At least 34 people were killed when separatist Tamil guerrillas blew up a train carrying some 200 soldiers in Sri Lanka's northern province.

Lawyers' boycott

Lawyers in Bangladesh began an indefinite boycott of courts to support opposition demands for President Ershad to restore democracy and the powers of the judiciary.

Israel pulls back

About 60 Israeli military vehicles rumbled through Sidon in the first stage of Israel's withdrawal from south Lebanon. Meanwhile tomorrow Lebanon and Israel will hold further disengagement talks at Naqoura. Page 3

Cuban crash

Cuban aviation experts sifted through the wreckage of a Cuban airliner to find out why it crashed five minutes after takeoff from Havana killing all 40 people on board.

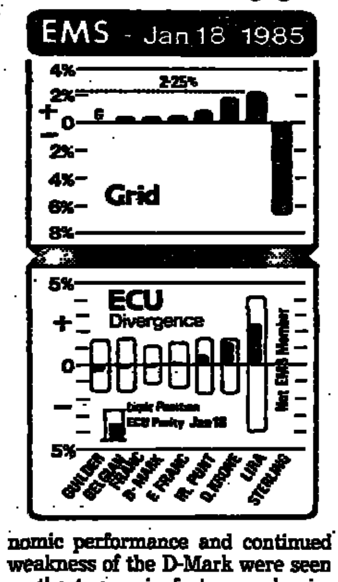
W German clash

Riot police in Velbert east of Duesseldorf broke up a violent clash between left-wing and right-wing activists and took 37 people into custody for identity checks.

Dunlop prepares to fight BTR bid

DUNLOP HOLDINGS' chairman Sir Michael Edwardes and two executive directors have temporarily dropped their controversial share options scheme as they prepare to fight off a £33m ($36.9m) takeover bid for the UK tyre and rubber group from BTR, the British industrial conglomerate. Page 12

THE Belgian franc continued to improve in the European Monetary System last week, moving briefly above the French franc. It showed an appreciation against its Ecu central rate for the first time since March 1983. An encouraging economic performance and continued weakness of the D-Mark were seen as the two main factors underpinning the franc. The D-Mark showed further losses against the dollar despite recent warnings of central bank intervention. In the EMS it was placed just above the weakest currency, the Dutch guilder.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

ISRAELI cabinet met to consider a proposed austerity budget for 1985-86 amid complaints by some ministers that planned cuts would not be enough. Page 2

FRENCH Finance Ministry has put forward proposals to banks designed to ensure smooth introduction of franc-denominated certificates of deposit. Page 12

ITALY suffered a record balance of trade deficit of L3,526bn ($1.8bn) in November bringing the total trade deficit for the first 11 months of 1984 to L18,000bn. Page 3

NORWAY announced measures to curb the growth in bank lending and to lower short-term money market rates. Page 3

UK Energy Secretary Peter Walker is expected this week to inform Whitehall of his decision over the $30bn import of gas from Norway's Sleipner field. Page 6

COCA-COLA Export Corporation is selling a controlling interest in its South African soft drinks bottling subsidiary to South African Breweries for R85m ($38m) Page 16

U.S. grape growers are again preparing to file anti-dumping cases alledging unfair trade by France and Italy with the International Trade Commission. Page 4

GRUPO Industrial Alfa, the Mexican holding company, came closer to agreement on the rescheduling of its $2.5bn debt when it presented its 80 creditor banks with terms already agreed with its four biggest lenders. Page 16

NCNB, one of the fastest growing and most profitable U.S. regional banks, increased its 1984 net income by 29 per cent to $119.2m. Page 16

We apologise for any typographical errors in today's edition arising from industrial action by members of the National Graphical Association in the proofreading room in London.

Reagan rides into new term on a wave of popularity

BY REGINALD DALE, U.S. EDITOR, IN WASHINGTON

PRESIDENT Ronald Reagan officially began his second term of office in a freezing, snow-swept Washington at midday yesterday, as opinion polls continued to show him riding his highest wave of popularity in almost four years.

Mr Reagan renewed his oath to defend and uphold the constitution in a low key White House ceremony that lasted little more than five minutes. He is to repeat the process before an audience of 140,000 on Capitol Hill today, as the capital publicly celebrates his inauguration with pomp, pageantry and parades.

As exuberant Republicans swarmed into Washington for the festivities the latest Washington Post opinion survey put his national approval rating at 68 per cent, higher than at any time since the flood of sympathy after he was shot in an assassination attempt in March 1981.

Earlier this month, the New York Times/CBS News poll put the figure at 65 per cent.

Mr James Baker, the White House chief of staff, and Treasury Secretary designate, said Mr Reagan would take advantage of his popularity in the months ahead to "go to the people" if he could not move his legislative programme through Congress – as he had done successfully in his first term.

White House officials said Mr Reagan would hold regular nationally televised news conferences, perhaps as often as every month to six weeks, after a six month gap during the period surrounding November's election.

Mr Donald Regan, the Treasury Secretary, who is soon to take over Mr Baker's job at the White House, said Mr Reagan's first priority for his second term would be to cut Federal government spending.

Mr Regan said the cuts would be almost across the board with practically every government programme frozen or reduced. The President would propose spending reductions of about $50bn for fiscal 1986, bringing the deficit down to $170bn – $180bn when he presents his budget to Congress on February 4.

He said the $50bn would be achieved without further cuts in the defence budget beyond the $8.7bn already decided by Mr Reagan, but did not say how this would be done. The implication was that Mr Reagan was considering even deeper cuts in domestic programmes than previously envisaged.

Mr Regan said a cut of $50bn in fiscal 1986, which starts on October 1, would translate into a deficit reduction of $90bn three years later. The cuts, if maintained, with economic growth, would reduce the deficit to "where it can be handled," although they would not balance the budget.

He made it clear that he planned to run the White House single-handed and would take a tough line, hinting that Mr Caspar Weinberger, the influential Defence Secretary, might enjoy less direct access to Mr Reagan under his stewardship. "He will get a fair hearing," said Mr Reagan, but "I don't think anyone will go around me."

Challenges ahead, Page 10

France to act over crisis at Renault

BY PAUL BETTS IN PARIS

THE FRENCH Government is expected to take urgent action this week to resolve the mounting crisis at Renault. This could include the replacement of M Bernard Hanon, the chairman of the financially troubled state-owned car group, by M Georges Besse, currently head of the nationalised Pechiney aluminium group.

The future of M Hanon, who flew back to Paris from New York at the weekend, will be decided at a Renault board meeting tomorrow before a cabinet meeting on Wednesday.

The Government declined at the weekend to confirm or deny reports that M Laurent Fabius, the Socialist Prime Minister had asked M Besse, the chairman of Pechiney, to take over at Renault, one of the leading positions in the French industrial state sector.

If M Besse's appointment is confirmed this week it will be the first time that an outsider will have been named to head Renault. His selection would reflect M Fabius' confidence in one of the most successful French state industry managers.

During the last two years, M Besse, a former chairman of the French nuclear fuels group Cegema, has launched a major restructuring programme at Pechiney. He has now returned the group from heavy losses of FFr 2.8bn ($287.4m) in 1982 to a profit of FFr 307m in the first half of last year.

Although M Hanon had his mandate at Renault renewed by the government only six months ago, the Socialist administration has become increasingly critical of his management of the group. Renault, a traditional flagship of French nationalised industry, is now expected to report losses of up to FFr 20bn this year.

The group is now seeking FFr 4bn in fresh aid from the state this year and is trying to make major job cuts in France. Its new Superfive Mini launched last autumn has proved a disappointment and has failed to halt the group's fall in domestic market penetration.

M Bernard Hanon

Renault saw its share of the French market drop to 31 per cent last year. Moreover, the pro-Communist CGT labour union has again been mounting a campaign against Renault's heavy investments in the U.S. where it owns 46 per cent of AMC and 41 per cent of Mack Trucks.

Speculation of the possible replacement of M Hanon intensified at the end of last week after President François Mitterrand announced during a television broadcast that measures would be taken "in coming days" to resolve the Renault situation. Mme Edith Cresson, the industry minister, had also criticised Renault's management in a magazine interview in which she praised the recovery of Peugeot, the private French car group.

With M Hanon absent in New York, the reports of a possible change of chairman heightened the atmosphere of crisis at the state car group in Paris. Government sources said that in the current circumstances it was clear that decisions would have to be taken in the next 48 hours on the future of the car group.

Continued on Page 12

Ford tops European car sales league

By Kenneth Gooding in London

FORD of the U.S. beat Fiat of Italy by the narrowest of margins to win for the first time the title of West European car sales champion.

Only about 1,000 registrations spread through 17 European countries separated the two groups as the chequered flag came down at the year-end.

In 1983, a similar margin kept Renault ahead of Ford and enabled the French group to retain the top position it had held since 1980.

Last year, however, Renault plumetted to last place among the six leading European car producers – an indication of what can happen to any group which stumbles slightly in the fiercely competitive market conditions.

Renault blames its fall on the fact that its model renewal programme is lagging behind those of its competitors and, in particular, the replacement for its best-selling small car, the R5, did not appear until the autumn.

Renault, like the Peugeot-Citroën-Talbot group, also suffered from the weakness of demand in the French market where total registrations fell by 12.5 per cent to 1.765m.

Sluggish sales in West Germany, caused by uncertainties over pollution controls for cars and a declining market, and the fact that UK registrations eased back by 2.3 per cent to 1.74m after the record set in 1983, also contributed to a 3 per cent fall in West European car sales to 10.17m last year.

There is not a great deal of marketing advantage to be gained from topping the European sales league – leadership in individual markets is more important to the marketeers. But winning the European championship provides a tremendous boost for morale within the company concerned.

Ford has moved to the top of the list by maintaining a relatively strong presence in most of the West European markets, having created

Continued on Page 12
West German output lifted, Page 3; Jaguar exports at record, Page 7

Paris recalls diplomat from New Delhi

BY JOHN ELLIOTT IN NEW DELHI

A SENIOR French diplomat involved in defence contracts is being recalled from New Delhi by his Government following the uncovering of a spy ring operating in the offices of top Indian Government officials.

The French Government last night confirmed in Paris, that Lt Colonel Alain Bolley, deputy military, air and naval attaché in New Delhi was returning to Paris for "consultations." A French Government spokesman denied knowledge of any spy scandal.

At least 12 Indian civil servants and three businessmen have been arrested and charged under the Official Secrets Act. Three or four other officials were last night believed to have been away from their homes when sought by police.

Intelligence sources last night suggested that the spy ring was at least partially aimed at gathering information about defence and other contracts, in which France competes strongly against other European countries and the USSR.

But it was also being reported that a file on Pakistan's nuclear plans and capability had disappeared from the home of Mr Rajiv Gandhi, the Indian Prime Minister.

Photostat copies of documents on a wide range of nationally important topics have been found in houses raided, it is alleged.

The uncovering of the spy ring has provided Mr Gandhi with his first major new problem since he took office after India's general election late last month.

Dr P. C. Alexander, Mr Gandhi's principal secretary and his most trusted and respected civil service adviser, resigned on Saturday because three of his own office staff were among those arrested.

Mr Gandhi, who has been insisting since taking office that public servants and ministers must be held accountable for their actions, accepted Dr Alexander's resignution "with regret."

Documents on virtually every major contract placed abroad by India in the past few years have passed through Dr Alexander's hands but there was no suggestion that Dr Alexander himself was involved in the spy ring.

Those running the ring appeared to have bribed medium to junior grade officials working for ministries like the defence ministry and Dr Alexander's office.

Attention focussed on France after Agence France Press reported from Paris over the weekend that an unnamed diplomat was being recalled for talks.

Most French defence sales are handled through a separate organisation known as Ofema but French embassy officials are also involved and Colonel Bolley is believed to have been instrumental in India's contract to buy 40 Mirage jet fighters from France. The first of the 40 are expected to arrive soon but India did not take up option to manufacture 70 more under licence in India.

Other key defence projects now being pursued by France include contracts which could total several hundred million dollars for computer controlled howitzer gun systems, a light combat aircraft development project, various missile orders and a $95m helicopter order which Westland of the UK hopes to clinch against persistent competition from Aerospatiale of France.

France is also finalising a major Airbus order from Air India

Fed move likely to make markets anxious

By Max Wilkinson in London

A STRONG indication that the New York Federal Reserve was selling dollars on Friday is likely to create an anxious mood in the foreign exchange markets when they open in London this morning.

The Fed's reported move would be the first since Thursday's meeting of the five larges industrial powers, at which it was agreed to take a more active concerted role in the markets.

The main anxiety of the five countries, the U.S., Japan, West Germany, the UK and France was to prevent the dollar soaring too far before, as they believe, it inevitably starts to tumble under the weight of the U.S. trade deficit.

New York market analysts generally agreed over the weekend that the Fed had sold about $65m to help push the D-Mark back from the DM 3.18 level towards DM 3.165.

This was seen as a highly significant move since it was the first time for several years that the Fed has been seen to be active at a time when the markets were subdued and quiet.

The previous policy of the U.S. Administration had been to limit intervention to times when the markets were considered over-excited or "disorderly."

In recent months, however, central banks including the German Bundesbank and the Bank of England have been discussing the idea of a more active intervention policy.

The Fed, which is anxious to ensure a "soft landing" for the dollar when it starts to fall, is said in Europe to have been sympathetic to these ideas.

None of the banks, however, believes that official intervention could reverse a strongly established market trend.

The sterling crisis a week ago appears to have persuaded Mr Nigel Lawson, the British Chancellor, to shift his position more towards the banks' views. He was previously known for a vigorous scepticism about the merits of official intervention in the currency markets.

But after Thursday's five-power meeting in Washington, officials said he belived concerted action had become more likely.

This week the foreign exchange markets will be trying to assess whether the authorities are bluffing or whether they are prepared to commit substantial quantities of dollar reserves to combat "unjustified" speculation.

It is a game of financial poker in

Continued on Page 12
Trying to unnerve exchange dealers, Page 2

Brazilian report creates new concern on debt negotiations

BY ANDREW WHITLEY IN RIO DE JANEIRO

FRESH uncertainties have been injected into the Brazilian debt renegotiations with creditor banks by a draft report to President-elect Tancredo Neves from his economic transition team.

The report, due to be formally presented this week, comes down firmly in favour of the renegotiation of Brazil's $100bn foreign debt on lines that will not compromise the incoming government's commitment to alleviating poverty and unemployment, according to members of the team.

Its presentation coincides with a break in the negotiations in New York for a multi-year debt rescheduling agreement; a breathing space called to allow the Brazilian negotiators time to discuss the terms on offer with Sr Neves and his aides.

Sr Affonso Celso Pastore, the central bank governor, who has been heading the Brazilian team in New York, is believed to have secretly met the President-elect last Friday. But, unusually for Brazil, neither side has been prepared to comment on the outcome.

Bolivia's leading creditor banks are to meet in New York early this week to look for ways of persuading the government of President Hernan Siles Zuazo to resume interest payments on its foreign debt. With no payments received since last March Bolivia is now estimated to be some $75m in arrears. Page 2

Only small differences, over the "spreads" to be charged now remain to be bridged by the parties to the New York negotiations according to U.S. bankers involved.

Whether it proves "sellable" to the incoming Neves Government and to Brazilian public opinion is less certain. It is understood, for example, that Sr Pastore has already tried, and failed, to get the creditor banks to consider a partial capitalisation of interest payments – one of the proposals highlighted in the transition team's debt report.

Members of the team, known as the Commission for the Government Plan, have said in press interviews over the weekend that there will have to be a change in the nature of Brazil's relationship with the international Monetary Fund and the bank creditors.

Sr Sergio de Freitas, a leading Brazilian banker and member of the team, commented that the Neves Government "may not necessarily" sign another letter of intent with the IMF. He said the greatest asset of the new administration was its domestic credibility, and argued that this could not be squandered through agreement to adjustment programmes which could not be accomplished.

CONTENTS

Group of Five tries to unnerve foreign exchange dealers

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

ONE QUESTION will dominate the world's foreign exchanges this morning: "Has the Group of Five really declared war on the dollar speculators?"

Certainly the fiance ministers and central bank governors who met in Washington last week meant to strike a powerful uneasiness into the hearts of all foreign exchange dealers.

They declared that the U.S., *West Germany, Japan,* the UK and France stand ready to join in concerted intervention in the exchange markets, whenever they think fii.

The manner of the announcement, which broke a long tradition of secrecy for G5 meetings, and the comments of officials afterwards, showed that the authorities are in earnest about wanting to curb the dollar's progress.

They may calculate that the mere threat of massive official selling of the dollar will be enough, at leass to keep speculative buying of the currency on a short tether.

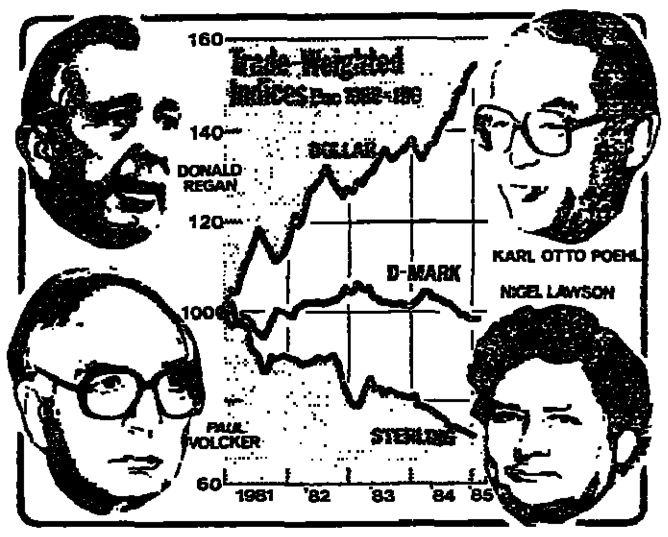
On the other hand, the industrial powers have disagreed so often and so publicly about intervention in the last four years, that the markets might well believe that there is little prospect now that they will be able to agree to any practical demonstration of combined might.

The *history* of these disargreements—often highy cantankerous—goes back to the disastrous economic summit meeting in Versailles in June, 1982. With the French franc under strong pressure, President Francois Mitterrand, the host, tried unsuccesfully to persuade the other six summit nations to use their official reserves to curb the rising dollar.

Although the discussion was couched in more general language, the answer was "no—why should other countries pay for the foolish laxity of French domestic policy?"

The basis for at least the appearance of a compromise surfaced, however, at the next summit meeting in Williamsburg, Virginia, a year later. There, the leaders agreed: "We will improve consultation, policy convergence and international co-operation to help stabilise exchange markets."

The Group of Five "reaffirmed" this statement at their meeting in Washington on Thursday.



The doubts remain, however, *along with a general dislike of* intervention by the U.S. and by the British Treasury. Both believe, with varying emphasis that each country should be responsible for its own "disciplined" monetary policy, and that the exchange rate is a market price which will sooner or later reflect those domestic policies.

However, in the last two years that belief had been badly battered. In the spring of 1983, during the run-up to Williamsburg, most European treasuries and central banks were convinced that the dollar was reaching its peak.

All their anxiety then was about how Europe could cope with a falling dollar during 1984. By the summer of 1983, when it was clear that the fall had not happened, there was still a feeling among central banks that a concerted official effort might "push it over the hill," after which it would roll down of its own accord under the weight of the U.S. trade deficit.

The West German Bundesbank, particularly, was increasingly worried about the effect on domestic prices, of the D-mark's sinking value against the dollar.

With the Williamsburg declaration as its text, the Bundesbank persuaded the U.S. to join a "concert party" of European central banks to try to topple the dollar. The U.S. Federal Reserve Board was sympathetic, because it was then evident that U.S. trade was being badly damaged by the high dollar. The administration agreed to spend a token amount of its reserves with maximum publicity.

But the British remained militantly aloof; and not so discreet laughter was heard in Whitehall when the attempt failed. The Bank of England had spent more than the £1bn of reserves without much effect when the pound fell in late 1982 and the early months of 1983.

The British and U.S. positions were hardly changed this autumn at the annual meeting of the International Monetary Fund in Washington when the Bundesbank decided to have another go. After animated discussion in the G5 meeting which preceded the conference, the Bundesbank intervened heavily on Friday September 21, to arrest a dramatic slide of the D-mark but to no avail.

Nine months later, in July, 1984, *it was the pound* which was in trouble, after a combination of industrial troubles, weak oil prices and poor publicity management by the authorities. Once again Mrs Thatcher and Mr Nigel Lawson, the Chancellor of the Exchequer, vetoed any idea of spending reserves, although the Bank of England, in commit with the U.S. Fed, has been considerably more sympathetic to the idea of intervention in times of crisis. A 2¼ per centage point rise in interest rates to 12 per cent was tried instead. It worked, but there was considerable argument, even within the Treasury, whether some intervention might have achieved the same result with less damaging effects.

A week ago when sterling slid again and interest rates were huriedly hoisted back to 12 per cent, the same questions were raised. Mrs Thatcher's aversion to spending reserves, prominently reported by several Sunday newspapers, had helped to precipitate the crisis.

But the threat of pound-dollar parity concentrated the minds of ministers wonderfully. The result was a surprisingly rapid shift of stance by Mr Lawsonfi He joined forces with the Bundesbank, the French and Japanese authorities, and, one might say with the Bank of England, to persuade the U.S. to modify its public stance. Their main argument was that the dollar assuredly will fall, perhaps sooner than later. It is in the interest of all governments to smooth off the peak if they can.

It is possible that the mere threat of official action could *have an important effect* on market behaviour.

Namibia offshore gas field gets go-ahead

THE South African Government has given the go-ahead for the evaluation and exploitation of a large offshore gas field in Namibian territorial waters, according to unconfirmed Sunday newspaper reports in Johannesburg. The gas field, known as Kudu, lies 75 miles offshore and only one and a half miles inside Namibian territorial waters, **Jim Jones writes from Johannesburg.**

It was first discovered in 1974 by Chevron, the international oil company, but development of the field was delayed because of political considerations and Namibia's uncertain status. According to a report in the Johannesburg Sunday Times, Dr Piet Van Zijl, managing director of the state-owned oil exploration company Soekor, says that the South African Government had recently altered its views on exploiting the gas find and had approved a final evaluation of the project.

Tamil guerrillas kill 34 in train blast

At least 34 people, 23 soldiers and 11 civilians, were killed when Tamil reparatist guerrillas blew up a train in northern Sri Lanka at the weekend, the Defence Ministry said, **Reuter reports from Colombo.**

Twenty-five people, including three p olicemen, were injured, and the death toll may rise, the ministry said.

The guerrillas fighting for a separate Tamil state set off a mine under the train, which was carrying about 200 soldiers as well as civilians from the northern town of Jaffna to the capital.

Pakistani opposition in election boycott

PAKISTANI opposition parties were banned from meeting after their decision yesterday to boycott the February 25 national assembly elections being held by the Government of President General Zia ul Haq, **Mohammed Aftab writes from Islamabad.**

The 11-party opposition alliance, called Movement for Restoration of Democracy, will also boycott the election of the provincial assemblies for Punjab, Sind, Baluchistan and North West Frontier, due on February 28.

Lebanese central bank governor sworn in

Mr Edmund Nain, the new central bank governor in Lebanon, was sworn in at the weekend and pledged to strive *to restore the country's economy,* **Reuter reports from Beirut.**

Peking visit may reshape Sino-U.S. ties

BY COLINA MACDOUGALL IN LONDON

GENERAL JOHN W VESSEY, chairman of the U.S. Joint Chiefs of Staff, left China on Saturday after a week's visit which could raise Sino-U.S. relations to a new level and further downgrade Taiwan as an American ally.

While his trip was billed as a service-to-service visit, the State Department in Washington confirmed while be was in Peking that his mission had discussed what might be *the first Chinese purchase of* U.S. military hardware.

This, thought to include submarines detection devices, torpedoes and ship defence equipment, will be taken further when Mr Melvyn Paisley, the U.S. Navy's Assistant Secretary for Research and Engineering, goes to China later this month.

Last year, following U.S. Defence *Secretary* Caspar Weinberger's trip to China in September 1983, three senior missions from China's military, including one led by Zhang Aiping, Minister of Defence, went to the U.S., to hold talks with officials and manufacturers.

*Predictably, Taiwan has protest*ed that military sales would endanger the region's stability and upset the balance of power in the Taiwan Strait. However, though in 1980 President Ronald Reagan spoke of enhancing U.S. ties with Taiwan, he is not likely to move from his pro-Peking course.

The strength and importance of U.S. links with China culminated *last year in the exchange of visits* by Premier Zhao Ziyang and the U.S. President.

Taiwan still exists as an obstacle to Sino-U.S. relations, as General Vessey's hosts continually reminded him, but U.S. weapons sales to the island state are limited by the agreement hammered out by Peking and Washington in 1982.

This, clearing up ambiguities left by the previous Sino-U.S. declarations of 1972 and 1979, said that future sales should not exceed those made in the past in either quality or quantity of equipment.

The importance to China of Gen*eral Vessey's visit was underlined* by his high level treatment. That included talks with Premier Zhao, as well as Defence Minister Zhang and Chief of Staff Yang Dezhi.

While all discussions were kept *secret, General Vessey revealed in* a banquet speech that he and the Premier had agreed that "it is important that our military contacts be integrated with our military technology co-operation."

Bankers want Bolivia to resume interest payments

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT

BOLIVIA'S leading creditor banks are to meet in New York early this week to look for ways of persuading the Government of President Hernan Siles Zuazo to resume interest payments on its foreign debt.

With no payments received since last March Bolivia is now estimated to be some $75m (£67m) in arrears on interest payments to its 144 commercial bank creditors. Arrears of principal are also mounting and are thought to total some $140m.

This week's meeting, chaired by Bank of America, is expected to seek a common approach ahead of a meeting with the Bolivian Government itself, currently scheduled for the first week in February. This will be the first meeting between the two sides since November.

Though senior bankers still doubt that Bolivia will be declared formally in default on its $720m commercial bank debt, concern is deepening over the continued payments delays.

It would be "naive" for Bolivia to expect all bank creditors to remain understanding about its problems indefinitely, said one banker over the weekend. Even a token resumption of interest payments would help.

Low tin prices and late payment by Argentina on natural gas exports from Bolivia have compounded its foreign exchange problems. The gas exports, worth $360m a year, make up half the country's export receipts.

Levesque wins party fight to shelve independence

BY ROBERT GIBBENS IN MONTREAL

QUEBEC Premier Rene Levesque has won his fight to have the ruling Parti Quebecois shelve the issue of the province's independence indefinitely. He said a provincial election will be held this year and he hopes to lead his party to victory.

The independence issue came to a head last autumn when Mr Levesque and Quebec Justice Minister Pierre Marc Johnson declared the PO must *realise public support for* separation has declined. They said the party faces certain defeat by the Quebec Liberals under former premier Robert Bourassa unless it gives top priority to the economy.

Two senior ministers, Mr Jacques Parizeau and Mr Camille Laurin resigned in protest and became backbenchers along with several junior ministers. Mr Parizeau later left the provincial parliament and Mr Laurin assumed leadership of a hard-liner group who argued the PO must retain independence as its primary goal or lose its unifying force and fail to win greater autonomy from Ottawa.

At the week-end, delegates from all 122 constituency associations voted on the issue. Mr Levesque had two-thirds of them on his side, making *victory inevitable, but a* dramatic moment came when Mr Laurin led nearly 500 hard-liner delegates out of the hall in protest. The vote was 869 delegates for Mr Levesque and 469 for the hard-liners.

Mr Laurin said later the hard-liners sitting in the assembly have no intention of helping the Quebec Liberals by forcing an early election.

Nkomo cancels rally after clashes

By Tony Hawkins in Harare

ZIMBABWE opposition leader, Mr Joshua Nkomo, was yesterday forced to cancel an election rally in the northern town of Chinhoyi after a few people had been injured, none seriously, in Clashes. No arrests were made. Mr Nkomo, who was driving to Chinhoyi from Harare for the rally, turned back when he was told that the meeting had been cancelled on police advice.

It was the second time in ten days that political demonstrators had forced the Zapu leader to cancel an election meeting.

Despite this, Mr Nkomo insisted that he would continue to campaign vigorously for all 80 common roll seats which Zapu will contest in Zimbabwe's first post-independence elections expected to be held in March.

Jim Jones reports from Johannesburg: The South African Government has decided that Rev Jesse Jackson, the U.S. black leader, will not be a welcome visitor to the country next month when he planned to attend the inauguration *of Bishop Des*mond Tutu as Anglican Archbishop of Johannesburg.

Kampelman 'sceptical' on arms talks

By Reginald Dale, U.S. Editor in Washington

MR MAX KAMPELMAN, the newly appointed chief U.S. negotiator for the forthcoming arms control talks with the Soviet Union, is co-author of an article which expresses strong doubts that a breakthrough in the negotiations is possible in the near future, the *New York Times* said yesterday. ... ...

The article, which is to appear in the New York Times Magazine next Sunday, was written jointly by Mr Kampelman, Mr Zbigniew Brezezinski, National Security Adviser to President Jimmy Carter, and Professor Robert Jastrow of Dartmouth University.

In it, the authors say that Soviet compliance with arms control accords is "sufficiently troubling to warrant scepticism regarding the likelihood of implementing any such complex and farreaching agreement." A comprehensive agreement would require "a much more felicitous political climate than currently exists."

Mr Kampelman, a Conservative Democrat, said he had "not the slightest problem" with the article's context, but confirmed that he had asked the paper to take his name off it after he learned of his appointment, which was announced on Friday.

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Israel starts pullback from southern Lebanon

BY DAVID LENNON IN TEL AVIV

ISRAEL began withdrawing *non-essential* equipment such as spare parts and field repair workshops from southern Lebanon yesterday. At the same time, it was announced that Israeli and Lebanese delegations would meet tomorrow to discuss security arrangements in the areas being evacuated.

"The initial logistic stages of *the withdrawal have* begun," the army spokesman confirmed. However, he added: "The Israeli forces will remain fully equipped for operational purposes until February 19, the date set by the Government for the completion of the first stage of the three-phase withdrawal plan."

Mr Brian Urquhart, the Under-Secretary General of the UN, said after meeting Israeli officials that there will be a meeting in Nakoura in South Lebanon on Tuesday at which "the Israeli delegation will present its withdrawal decision and the Lebanese delegation will present their response."

He added: "There is a very strong possibility that the Lebanese would ask the Security Council to extend the mandate of the UN forces north of the Litani River into the areas being evacuated by Israel in the first stage."

Mr Urquhart has been shuttling between Israel, Lebanon and Syria, in the past week in search of agreement over the future role of the UN peacekeeping forces in Lebanon following the Israeli retreat. Israel now controls 1,750 square miles of Lebanese territory. In the first stage of the pullback Israeli forces will evacuate a 312 square mile coastal area between the Awali and the Litani

Cabinet debates budget

BY OUR TEL AVIV CORRESPONDENT

THE ISRAELI Cabinet began its deliberations yesterday on a proposed austerity budget for 1985-86 amid complaints by some Ministers that the budget had not been cut sufficiently while the Defence Ministry said the cuts in its budget were "irresponsible."

The framework budget of $23bn (£20bn) represents a cut of about $1.8bn from the budget for the current year. Repeated declarations that the current budget would be *cut heavily* proved to be impossible to implement.

Mr Ammon Rubinstein, the Minister of Communications, said after the Cabinet meeting: "I am sorry to say that we have not cut anything from the current budget."

UN chief tries to save Cyprus peace talks

BY ANDIANA IERODIACONOU IN NEW YORK

Sr Javier Perez de Cuellar, the United Nations Secretary-General, attempted yesterday to save negotiations for a Cyprus settlement as President Spyros Kyprianou of Cyprus, and Mr Rauf Denktash, the Turkish Cypriot leader, clashed bitterly over whether key unresolved issues should be settled before the signing of a draft agreement.

UN officials conceded that the most the Secretary-General can salvage from the talks would be an agreement by both sides to meet again.

But even this seemed uncertain at the start of a fourth day of bargaining yesterday as Mr Denktash told the Press that he rejected the possibility of meeting Mr Kyprianou again on the same basis.

He said that if a future meeting were called he would withdraw concessions made last November, which led to the present summit, on the sharing of territory and constitutional power with the Greek Cypriots and return to negotiations from scratch.

"It will be a new round for renegotiating everything from square one," he said.

The concessions are wrapped up in a draft document prepared last November by the UN Secretariat outlining the framework for a two-zone federal Cyprus state but leaving key details of a settlement to be determined by joint Greek-Cypriot and Turkish-Cypriot working groups.

Mr Denktash and Mr Kyprianou have quarrelled over the purpose of their New York summit since it started on Thursday. The Turkish-Cypriots have insisted that the document is ready for signature, while the Greek-Cypriots want to fill in key blanks, particularly regarding the guarantees for a settlement and the withdrawal of Turkish occupation troops from Cyprus.

On the first day of the summit the two sides presented their positions on all aspects of a settlement. Major differences immediately emerged over the guarantee and troops withdrawal issue. But the two sides got bogged down in an argument over the purpose of the meeting rather than begin negotiations.

Iran attempts to revitalise relationship with Turkey

BY DAVID BARCHARD IN ANKARA

IRAN'S Prime Minister, Mr Mir Hussein Musavi, arrived in Turkey yesterday at the start of a two-day visit, apparently aimed at revitalising the flagging relationship between the two countries.

Relations have run into difficulties since the visit to Tehran last April of Mr Turgut Ozal, Turkey's Prime Minister.

Iran is suspicious at the close economic relationship between Turkey and Iraq, Iran's adversary in the four-year-old Gulf war. The subject is expected to head topics discussed during the visit.

Trade between Iran and Turkey last year failed to reach anticipated levels. They totalled only \$497m in the first six months of last year compared with about \$1.3bn-1.5bn in 1983.

Teams of Turkish and Iranian businessmen and officials have been discussing ways to raise the 1985 trade volume to \$3bn (£2.7bn). However, the talks have not been easy. Some Turkish businessmen walked out of discussions in Ankara last week which they claimed had not been properly organised.

W. German car output boosted by exports

By John Davies in Frankfurt

WEST GERMAN car makers are getting a strong boost from exports, while their home market is suffering from ever growing uncertainty and confusion over anti-pollution measures.

Car manufacturers exported nearly 200,000 cars last month, amounting to 70 per cent of production, according to figures from the Automobile Industry Association (VDA). By contrast, exports amounted to 67 per cent of output in December 1983, when local demand was more buoyant.

Export orders are steadily rising, says the VDA, while domestic demand has continued to fall as motorists put off plans to buy cars until government anti-pollution measures become clearer.

With car companies rushing to meet foreign demand, exports last year matched the record 2.19m units of 1982, even though production was down because of the seven-week labour conflict in May and June.

A total of 3.75m cars rolled off the assembly lines last year, 3.5 per cent fewer than in 1983. Exports took 58 per cent of production, compared with 56 per cent a year earlier.

With growing concern about the local car market, politicians and government officials in Bonn have been trying to disperse some of the cloud of confusion enveloping plans for anti-pollution measures.

The Government has already proposed changes in vehicle tax to encourage motorists to buy new cars which are adapted to meet tighter exhaust emission controls. Now officials have also drawn up plans for a scale of vehicle tax to induce motorists to equip "old" cars with anti-pollution devices.

Instead of a uniform rate of tax, as before, there would be a somewhat bewildering range of possibilities which the tax officials' union has condemned as unworkable and confused.

The plans has to run the guantlet of further coalition discussions and parliamentary committee investigations.

While car production is still at a high level, despite clouds over the local outlook, West Germany's commercial vehicle output has continued to sag—falling 7.7 per cent last year to 255,500 units. This was the fourth year in succession that commercial vehicle production has dropped and it is running 30 per cent below the 1980 peak.

Ruhr smog alert lifted

PRIVATE CARS were allowed back on the streets of some cities yesterday in West Germany's Ruhr Valley industrial heartland after a weather change reduced pollution that had forced smog alerts in the region since mid-week, Reuter reports from Dusseldorf.

A stage-two smog alert, imposed by the state of North Rhine Westphalia on Thursday, was lifted in western districts after the levels of sulphur dioxide and other pollutants trapped under a ceiling of immobile air dropped. In eastern Ruhr cities, the stage-two alert was expected to end last night.

Michael Thompson-Noel assesses the reactions of New Caledonia's factions

Mitterrand's Noumea visit 'changed nothing'

HOPES for an end to violence in the French colony of New Caledonia in the South Pacific seemed slim last night, despite President Francois Mitterrand's dramatic 13-hour vitis to the island on Saturday.

The visit was intended to shore up support for the peace plan formulated by M Edgard Pisani, the French Government's special envoy in the striek-torn colony. The plan envisages possible independence for New Caledonia by January 1.

M Pisani's plan envisages a referendum in July followed by possible transition to independence but the maintenance of close links with France which would still supervise security and defence.

There are 63,000 native Kanaks to 55,000 settlers. Independence is opposed, however, by an estimated 30 per cent of the Kanaks and by many of the island's 20,000 French Polanesians. The anti-independent groups fear they will suffer discrimination if independence is granted.

Leaders of both the white settlers (the Caldoches) and of the indigenous Melanesian Kanaks maintain that President Mitterrand's visit would change nothing.

At the end of his visit, during which he met political, church, trade union and other community leaders, President Mitterrand said he hoped his intervention would encourage a resumption of talks among the bitterly divided camps.

The President said he was not prepared to make a major statement until he had pondered what he had learned but would make one in Paris

M Jean Marie Tjibaou, the leader of the Kanak Socialist National Liberation Frant (FLNKS) who had a lengthy private meeting with M Mitterrand is en route to Paris for further talks.

M Mitterrand's visit was greeted by the biggest demonstration ever seen in Noumea, the capital. Some 30,000 ardent nationalists — including some Polonesians and Kanaks — parading through Noumea watched by security forces. France has more than 6,000 troops and police on the island.

The demonstrators turned out in force in response to a call by the President of the settler-dominated territorial government, M Dick Ukeiwe, who had declared: "I call on the people to show their desire to be French."

M Jacques Lafleur, the colony's most significant anti-independent leader said he thought President Mitterrand would return to Paris "and understand that M Pisani's plan was dead before it existed."

A spokesman for the Kanak Socialist National Liberation Front (FLNKS) said that President Mitterrand's trip was a "foolish visit."

"There is no 'French interest' in New Caledonia. There are only two interests — those of the settlers and those of the Kanaks. Independence is inevitable. There can be no negotiation on that."

Spanish Defence Minister backs Nato membership

BY TOM BURNS IN MADRID

SPAIN'S Defence Minister, Sr Narcis Serra, yesterday said that for Spain to withdraw from Nato would be an act of "istorical irresponsibility."

The statement, made in the course of an interview published in the influential El Pais newspaper, was one of the firmest statements to date by a minister in the Socialist Goverment in support of continued membership of the Atlantic alliance.

In the first ever in-depth interview he has given as Defence Minster, Sr Serra said that withdrawal from Nato was "very difficult" and would be "enormously costly" for Spain and as well as for Europe.

While supporting the Government's pledge to stage a referendum on Nato membership, Sr Serra said that a plebiscite majority in favour of pulling out would be "very negative" and could prompt "demands for similar plebiscies in counries such as Denmark or Greece."

Sr Serra also linked Nato membership with Spain's negotiations to join the European Community: "Belonging to the (Nato) Alliance is not just a military issue. The unequivocal decision to be in Europe involves collaborating also in defence questions"

At the end of last year Prime Minister Felipe Gonzalez revealed publicly for the first time that although he had opposed Nato entry when Spain joined the Alliance in 1982, he now favoured continued membership. The Premier said that he would honour his pledge to put the issue to a referendum and would stage the plebiscite at the beginning of next year.

Italy's trade deficit reaches record high

By Alan Friedman in Milan

ITALY SUFFERED a record balance of trade deficit of L3,526bn (£1.62bn) in November, bringing the total Italian trade deficit to nearly L18,000bn for the first 11 months of 1984. The trade deficit for the whole of 1983 was L11,465bn.

The poor November results, released over the weekend by the Government Statistical Office, led Sig Giovanni Goria, the Treasury Minister, to declare that he was concerned about Italy's competitiveness on world markets. His chief concern was that exports in the first 11 months of 1984 grew at a rate of 15.4 per cent, while imports (fuelled by economic recovery) increased at the faster rate of 21.7 per cent.

Norway introduces curbs to slow bank lending

BY FAY GJESTER IN OSLO

MEASURES TO curb the growth in Norwegian bank lending and to lower short-term money market rates were announced at the weekend by the Oslo Government.

Primary reserve requirements for south Norwegian banks—last raised at the end of August 1984—were boosted by one percentage point to 11 per cent while the reserve requirements for finance companies were also increased to 11 per cent from only 7 per cent previously.

To discourage foreigners from placing short-term funds in Norway, thereby swelling the country's already excessive liquidity, the Treasury Bill rate is being lowered to 8.25 per cent from 10.25 per cent. This will weaken short-term money market rates.

At the same time the Government declared that it would soon begin issuing a new type of short-term paper, dubbed State certificates, which will carry a 12.5 per cent coupon, aimed at attracting some of the money now being invested in the unregulated market. This announcement on Friday led to a fall in Oslo interbank rates to around 12.5 per cent, from 13 to 13.5 per cent.

While bank interest charges are still subject to regulation the banks are to be allowed to charge money market rates for customer overdrafts above a certain limit. This is to prevent speculators from running up large overdrafts at relatively low interest in order to lend on the lucrative short-term market.

WORLD TRADE NEWS

U.S. wine war with EEC flares up again

By Nancy Dunne in Washington

LESS THAN a year after the International Trade Commission rejected unfair trade complaints against French and Italian wines, U.S. grape growers are preparing to file new countervailing duty and anti-dumping cases.

The Commission last year turned the growers down partly on the ground that they could not represent the entire U.S. wine industry. But Congress dealt the American Grape Growers Alliance for Fair Trade a strengthened hand when it included in the 1984 Omnibus Trade Act a Bill giving the growers standing to file with the ITC.

The Alliance says it now also numbers three vintners among its membership.

The European Commission, anticipating the grape growers' complaint, has already initiated consultations about the new U.S. law under Tariffs and Trade (Gatt). The Commission claims that Gatt allows only specified producers of the same or similar products to initiate trade cases.

In the meantime, EEC penetration of the U.S. wine market continues to grow. EEC wine sales here last year were up by 9 per cent, an increase three times that of American wines, according to Mr Robert Hartzell, president of the Californian Association of Grape Growers. Imports now account for 26 per cent of U.S. wine sales, a jump of 178 per cent since 1972.

American wine growers claim that the penetration has been made possible by Community subsidies and dumping from the "wine lake" which has allowed, for example, French wine to be sold on the East coast for 99 cents for a 750 ml bottle.

Many of the grape growers' arguments are contained in a U.S. Department of Agriculture report on EEC assistance to wine production and marketing in Italy.

It says Italy subsidies interest rates on part of the credit given to co-operatives and individual farmers. It found large grants for assistance with capital expenditures but acknow'ı dged that "they do not appear to account for a large portion of the cost of producing and bottling wine."

IBM's Mexico production plan back in the melting pot

BY DAVID GARDNER IN MEXICO CITY

IBM'S PLANS to set up a major manufacturing operation in Mexico for its personal computer range appear to have been thrown back in the melting pot, following the announcement that the U.S. computer group's proposal has been rejected by the Government's foreign investment commision.

IBM has been negotiating with the Mexican Government since last March to set up a wholly-owned subsidiary, which would be its fourth main production unit worldwide. Its plans have become the centre of a major political controversy, dividing both the Government and the electronics industry. The fate of the Proposal has come to be seen as the test of Mexican attitudes towards foreign investment.

IBM wants to produce 125,000 personal computers a year, including its top-of-the-range AT model, by expanding its existing plant at Guadalajara, which makes the System 36 mini computer.

The investment commission announcement, contained in a report on foreign investment for 1984, said the IBM proposal had be turned down because "there are already personal computer manufacturers in our country with majority Mexican capital."

Those familiar with the tortuous negotiations do not, however, regard this statement as a final rejection. Though it has been known for some time that the original IBM plan would be turned down, talks are already well advanced on a modified series of proposals.

In a terse response to the Government announcement, Sr Rodrigo Guerra, president of IBM Mexico, said his company was continuing "an open dialogue" with the Mexican Government on "other types of proposals to offer our personal computers to the national market."

The controversy over IBM is the result of confusion over Mexican foreign investment regulations particularly in the electronic industry.

The regulations generally require a multinational to be a joint venture, though in practice many foreign companies have set up wholly or majority-owned subsidiaries here.

Last February the Government announced that the legislation would be made more flexible and majority foreign ownership encouraged in specified sectors, but companies like Apple and Hewlett Packard in the computer industry had already started joint venture operations tailored to the as yet unpublished new decree.

This allows 100 per cent foreign capital in main frame and mini computer production — Hewlett Packard, for example, already had a wholly-owned company making its HP3000 mini computer in Guadalajara — but requires minority foreign ownership in personal computer ventures and sets targets for local content and exports.

Apple and Hewlett Packard conducted a major lobbying campaign to ensure that IBM would not be allowed in under different rules. Although 90 per cent of IBM's output would be for export, the scale of its operations would give it an edge on its 28 small competitors.

Apart from pricing advantages, IBM would almost certainly be able to import more in parts. The rules generally allow foreign companies to import th e components they want as long as the overall foreign exchange balance is kept in the black by exports, a condition IBM would easily meet. The company envisages export revenues of $530m in the project's first five years.

Brazilian helicopter deal brings bitter fight

By Andrew Whitley in Rio de Janeiro

AEROSPATIALE, THE French state-owned aerospace company, is being tipped to win a $190m order from Brazil for military helicopters in the face of continuing stiff competition from Sikorsky of the U.S.

The battle for one of the most lucrative defence contracts to be awarded abroad by Brazil in recent years has been hard fight, as both sides strive to close the deal before Brazil's change of Government in March. A final decision was due last week, but was put off at the last minute to allow a re-examination of the rival bids on technical grounds.

In an attempt to reverse the tide running in favour of the French, Mr Tony Motley, the U.S. Asistant Secretary of State for Inter-American Affairs and a former ambassador to Brazil earlier this month telephoned his old friend President Joao Figueiredo. This led to a temporary stay of decision, according to those close to the negotiations.

Both sides have offered 100 per cent purchase financing but the French have tempted the cash-starved Brazilian armed forces with an additional offer of parallel credits, reportedly worth 85 per cent of the contract price, to be used as the borrowers wish.

The U.S. Eximbank has made "enormous efforts" to match the French terms, according to Western diplomats. One obstacle to be overcome was the usual restriction on the financing of military equipment.

The company helicopters, mainly for military transport, are the Sikorsky Black Hawk, priced at $6m, and the Aerospatiale Super Puma with a $6.2m price tag, both without spares. Neither of them are currently in service in Brazil, so the accompanying spares packages will be large, adding about 20 per cent to the initial contract.

According to industry officials the Brazilian Air Force is looking for 14 of these large helicopters while the Navy wants another ten as wel as 15 of the smaller Esquilos, manufactured by Aerospatiale, for its marine units.

One curious feature of the competition is the apparent decision to buy the Esquilo from France and not from Aerospatiale's subsidiary in Brazil.

Top Soviet trade team in Bonn

BY RUPERT CORNWELL IN BONN

WEST GERMAN Government and industry is hoping to lay the groundwork for a new series of projects and economic co-operation deals with the Soviet Union during a weeklong visit by a top level trade delegation from Moscow, which started yesterday.

The centrepiece of the occasion will be a two-day session of the standing West German-Soviet economic commission. The two delegations will be headed respectively by Mr Alexei Antonov, the deputy Soviet Prime Minister, and Herr Martin Bangemann, the West German Economics Minister.

The meeting is the first of its kind since one in Moscow in November 1983 — just before the Kremlin's wrath was stirred by the deployment of cruise and Pershing missiles in Western Europe. Originally, this meeting was to have taken place last September, but was postponed following the sudden death of Mr Antonov's predecessor, Mr Leonid Costandov.

The immediate focus will be on a possible DM 18bn (£5bn) of orders and co-operation ventures, embracing not just large projects but small and medium-sized ones, which could go to West German industry. The talks will have important political aspects as well.

The Soviet team is expected tot insist vigorously on a relaxation of the tight curbs placed by the U.S. on exports of high technology, especially of potentiau military applicatiton, to the Soviet Union and other East bloc countries.

Bonn, which is the West's biggest exporter to the Soviet Union, has long signalled its dislike of the restrictions, but thus far has apparently had little success in changing Washington's mind.

None the less, the West Germans see the discussions here this week as proof that whatever the political abuse heaped upon them from Moscow, the Soviet hierarchy is still keen for business as usual in the economic field. There are also cautious hopes, likely to be explored during a meeting tomorrow, between Mr Antonov, Chancellor Helmut Kohl, and Herr Hans-Dietrich Genscher, the Foreign Minister, that the resumption of superpower arms talks might give Bonn more leeway in its Ostpolitik.

Several of the largest contracts are linked to the next Soviet five-year economic plan from 1986. Few firm decisions are expected this week, during which the visitors will move on from Bonn for meetings with political and industrial leaders in cities inclhding Dusseldorf, Stuttgart and Munich.

Among the projects are the development of oil and natural gas exploration, including offshore ventures in the Barents Sea and off Sakhalin Island in the Soviet Far East. Mannesmann and Klöckner are said to be in the running for major orders for steel and chemical plants.

In 1983 alone, Soviet-West German trade totalled DM 23bn, more than half of Bonn's overall exchanges with the Eastern bloc. In the first 10 months of 1984, according to the Economics Ministry, German exports dropped 4.7 per cent to DM 8.9bn, while imports from the Soviet Union jumped 23 per cent to DM 11.7bn, mainly due to increased shipments of oil and gas.

During the 1970s, Bonn ran up a total surplus of DM 12.6bn with Moscow. But since 1980, a deficit of almost DM 7bn has accumulated.

SHIPPING REPORT

Soviet grain activity boosts cargo rates

BY CARLA RAPOPORT

DRY CARGO rates staged a modest increase last week, largely thanks to chartering activity by the Soviet Union, and the grain rate from the U.S. Gulf to Europe recovered from recent lows of $8.40 to finish at $9.

But according to Denholm Coates, the Pacific grain rate to Japan experienced a highly erratic week, reaching $9.50 before settling back to $9.

The Russians are believed to have arranged freight contracts to carry 2.5m tonnes of grain from the Rier Plate by April, bringing a welcome boost to the Atlantic trade.

"This activity by the Russians can be expected to improve freight rates in the Atlantic somewhat," said London shipbrokers Eggar Forrester. "But with around 3 per cent of the fleet in lay-up and many new ships under construction, it is still too early to expect a significant improvement in the dry bulk sector."

In the oil tanker market, rates remain at a low level with the number of cargoes still sparse. Last week also brought the re-emergence of the chartering activities of Saleninvest, the Swedish shipping giant which went into liquidation last month. Backed by Argonaut and Moniter, Swedish shipping companies, the chartering activities of Salen Tanker and Salen Dry Cargo are now back in business.

West Germans win Far Eastern contracts

BY JOHN DAVIES IN FRANKFURT

SIEMENS, the West German electrical concern, has obtained a turnkey order to supply Indonesia with 35 diesel power plants worth about DM 240m (£67m). It has also received a letter of intent from PLN, the Indonesian electricity supply authority, for later related work worth DM 85m.

The power plants, with a total capacity of 140 MW, will be scattered throughout the Indonesian islands.

Other major work for the project would be carried out by Krupp Maschinenbau in Kiel and by Kloeckner-Humboldt-Deutz, the Cologne-based diesel engine maker and engineering group. Much of the electrical engineering equipment will be supplied from Siemens' Berlin plant.

Indonesia recently awarded major electricity transmission projects to the West German operations of Brown Boveri, the Swiss electrical engineer

● Orenstein and Koppel of West Germany has signed a licensing agreement under which China will manufacture certain smaller types of its fork-lift trucks. This is the latest in a number of deals in which the Chinese are seeking to build up their technology with the aid of West German industrial concerns.

The Hangzhou fork-lift truck factory in the province of Zhejiang will make O and K equipment with a carrying capacity of between 1.2 tonnes and three tonnes. O and K's own range of fork-lift trucks, made in Berlin, goes up to eight tonnes capacity.

The West German company will deliver complete fork-lift trucks and then components until production is fully established in China.

● Linde, the West German engineering and industrial gases group, is to build two natural gas plants worth more than DM 50m, for the Peking Ever Bright Industrial Company.

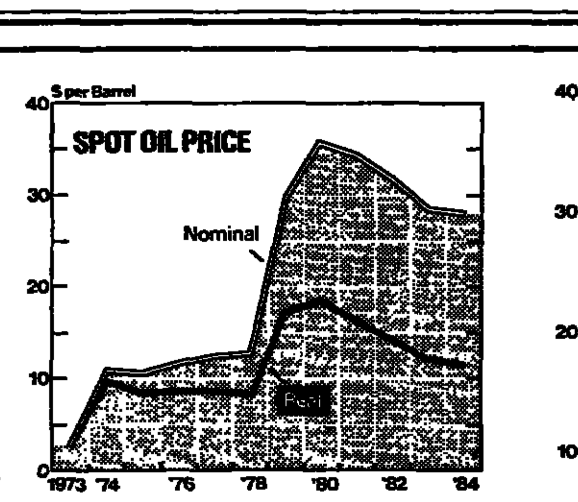
The installations, to be built at the Daging oil field in the province of Heilongjiang, are to supply feedstock for an ethylene plant.

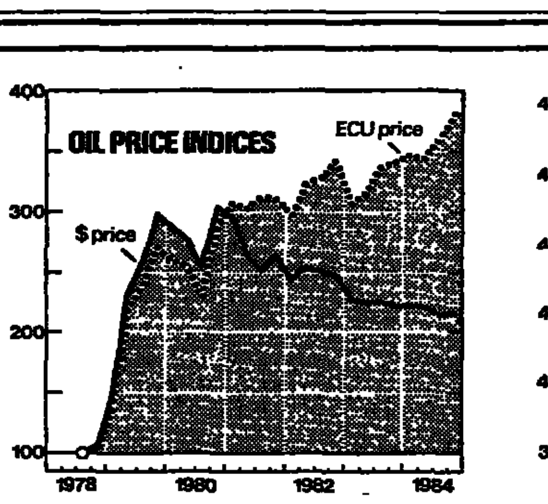
WORLD ECONOMIC INDICATORS

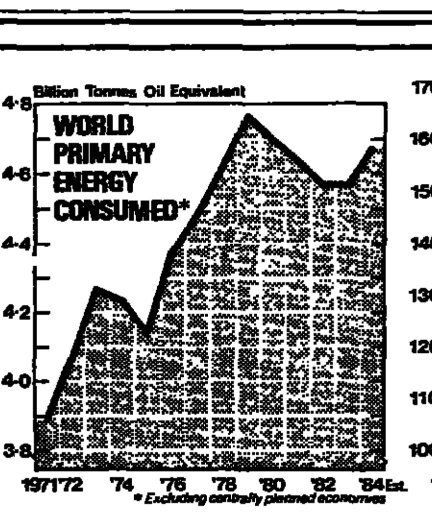
TRADE STATISTICS

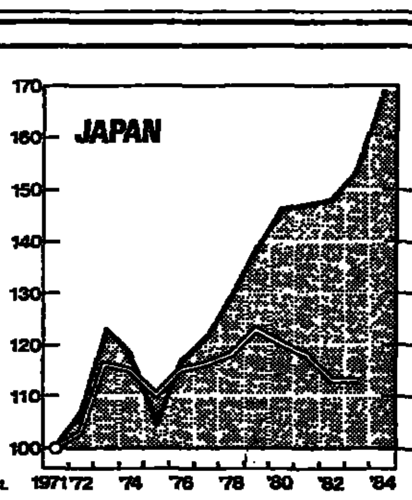
		Nov. '84	Oct. '84	Sept. '84	Nov. '83
U.S. $bn	Exports	18.373	18.387	18.177	17.063
	Imports	27.033	26.313	29.430	23.115
	Balance	−8.660	−7.926	−11.253	−6.052
UK £bn	Exports	6.450	6.254	5.844	5.235
	Imports	6.572	7.142	6.672	5.306
	Balance	−0.122	−0.888	−0.828	−0.070
		Oct. '84	Sept. '84	Aug. '84	Oct. '83
W. Germany DMbn	Exports	43.39	42.79	42.21	36.68
	Imports	36.56	37.60	36.79	33.25
	Balance	+6.83	+5.19	+5.42	+3.43
France FFrbn	Exports	73.80	73.30	76.54	64.28
	Imports	77.20	72.83	73.02	65.18
	Balance	−3.40	+0.47	+3.52	−0.90
Japan $bn	Exports	14.392	13.983	14.066	12.548
	Imports	10.351	10.076	11.258	10.074
	Balance	+4.041	+3.907	+2.808	+2.474

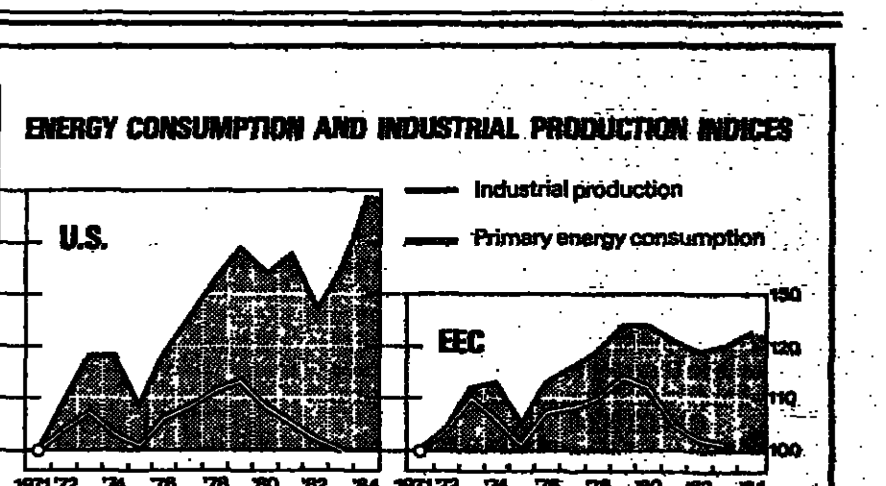
STATISTICAL TRENDS: ENERGY

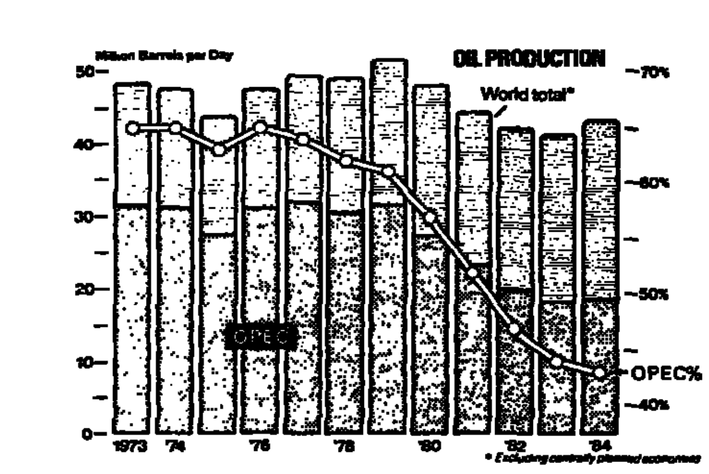


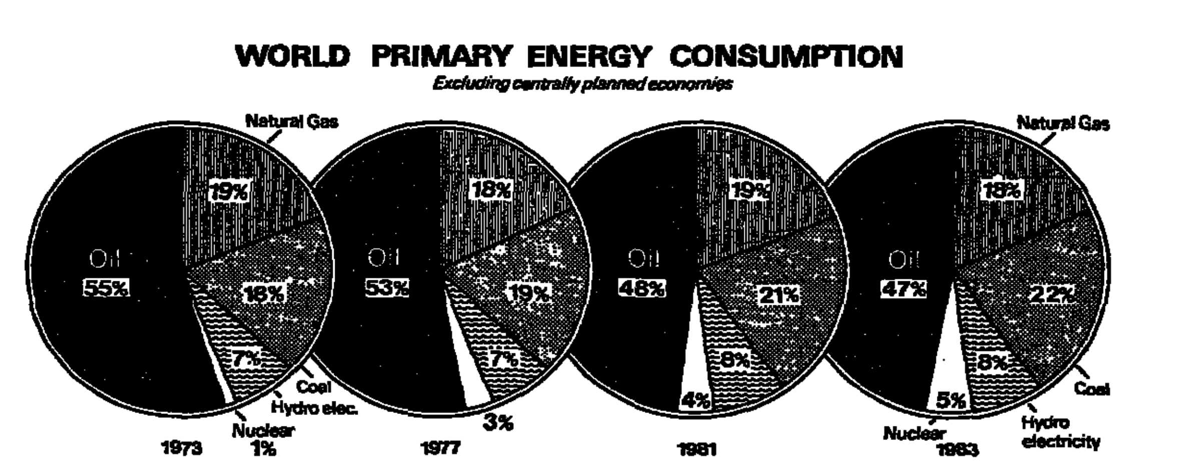


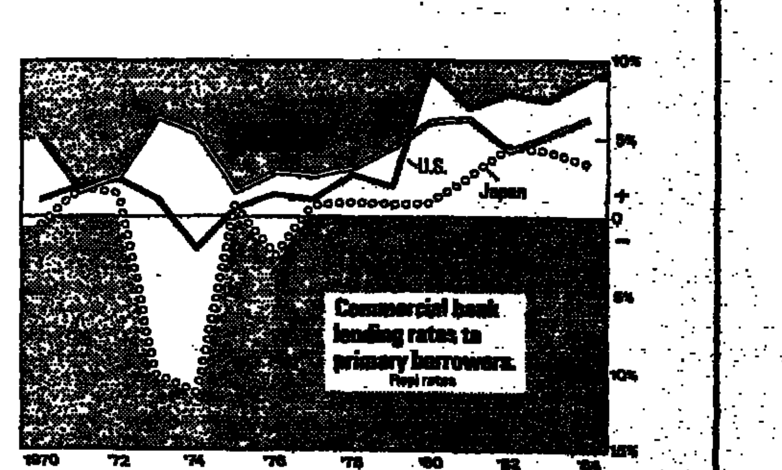












World demand revives after five years of decline

WORLD DEMAND for energy fell by 5 per cent between 1979 and 1983 with a decline each year. During this period, even with the recession of 1981-82, gross national product in the OECD area rose by 6 per cent, and industrial production where the recession hit hardest has returned in many industrial countries to above its 1979 output level.

This pattern reverses the trend of earlier periods where demand for energy rose and fell with changes in the level of economic activity. Among the factors leading to a weakening of the historic relationship between economic growth and demand for energy have been different growth rates in the major sectors — industry, transport and commercial — and substantial falls in production in the "heavy" industries which are major energy consumers. Other significant factors are energy conservation measures and greater fuel efficiency in cars.

Overall the ratio of total energy demand (TPER) to GDP has fallen from 0.81 in 1980 to 0.74 in 1983-84 — a drop of 9 per cent.

Provisional figures on energy demand for 1984 indicate a modest increase, bringing to a halt the five years of falling demand. This came against a background of sharp economic growth in the OECD countries in 1984 with output up by nearly 5 per cent following a rise of 2¾ per cent in 1983.

Industrial production in the U.S. and in Japan increased even more sharply in 1984 — up by 11 per cent — and it is this surge of activity that has most likely brought about the halt to falling demand for energy rather than a return to the strong historical relationship of earlier years.

Oil consumption has suffered from both the general decline in demand for energy and from the switch to alternative fuels. Oil's share of total demand dropped from 55 per cent in 1973 to 47 per cent in 1983. Nuclear power and coal have been the main beneficiaries from this change in the pattern of energy use.

Japan with its heavy dependence on oil has reduced the demand for oil from 78 per cent in early 1970s to 60 per cent; and EEC demand has fallen to 46 per cent.

OPEC producers have seen their position as suppliers weaken with their share of world oil production (excluding the centrally planned economies) falling from 65 per cent to 43 per cent during the last 10 years, the fall being particularly dramatic after 1979.

In 1984, OPEC production was 18.5m barrels a day (b/d) compared with 31.3m b/d in 1973 and 31.5m in 1979.

It was the sudden hike in oil prices between 1973 and 1974 from $2.08 to $13 that triggered off the search for alternative energy sources, a search that was intensified by the second oil price shock in 1979 when prices soared to around $35.

This left real dollar prices (1973 dollars) double the 1974 high.

Since then nominal prices have dropped to $27.28 per barrel — a fall of 26 per cent from peak values — while with the impact of inflation real dollar prices have almost halved and are now almost back to their 1974 level.

European customers have seen any benefit from falling dollar prices more than offset by the substantial appreciation of the U.S. dollar against the currencies in the EMS. The ECU has depreciated 50 per cent against the U.S. dollar since 1979-80.

During 1984 the ECU price of oil rose by 14 per cent against the background of easing dollar prices.

OIL CONSUMPTION

million b/d

	North America	Europe	Pacific
1979	20.6	14.4	6.6
1980	19.1	13.4	6.2
1981	18.1	12.5	5.9
1982	17.2	12.1	5.3
1983	17.0	11.8	5.1
1984	17.6	11.9	5.1

Source: IEA

ENERGY CONSUMPTION BY SECTOR

(million tonnes of oil equivalent)

	1973	1980	1982	†1985
Industry	1,044	989	862	1,006
Transport	641	721	699	704
Residential/commercial	907	888	837	831

† Forecast.

Source: IEA

Commentary by Our Economics Staff; data analysis by Financial Times Statistics Unit; charts and graphs by Financial Times Graphics Department.

ENERGY AND OIL REQUIREMENTS

Per unit of GDP

	73	80	81	82	83	†85
TPER*/GDP						
North America	1.12	1.04	0.99	0.97	0.94	0.94
Europe	0.71	0.63	0.61	0.60	0.59	0.59
OIL/GDP						
North America	0.50	0.43	0.39	0.38	0.37	0.36
Europe	0.41	0.32	0.30	0.28	0.27	0.27

† Estimate. * Total primary energy requirements.

Source: IEA

OIL TRADE

% shares

IMPORTERS	EXPORTERS: North America	Europe	OPEC	Others	Total
North America					
1980	7	5	68	20	100
1983	10	11	41	30	100
Europe					
1980	1	21	62	16	100
1983	1	31	45	23	100
Pacific					
1980	0	1	83	16	100
1983	3	1	73	23	100

Source: IEA

PRIMARY ENERGY CONSUMPTION

Million tonnes oil equivalent (% shares in brackets)

	Oil	Gas	Hydro	Nuclear	Coal
U.S.					
1973	818(45)	563(31)	76(4)	22(1)	335(18)
1983	700(41)	432(25)	95(6)	80(5)	400(23)
Japan					
1973	269(78)	5(1)	17(5)	2(1)	54(16)
1983	206(60)	25(7)	20(6)	28(8)	63(18)
EEC					
1973	586(61)	124(13)	25(3)	16(2)	215(22)
1983	411(46)	170(19)	34(4)	60(7)	203(23)

REAL GNP GROWTH

% change

	U.S.	UK	W. Ger.	France	Japan
76	4.9	3.8	5.4	6.2	6.3
77	5.2	1.3	3.1	3.1	5.3
78	4.7	3.7	3.1	3.8	5.0
79	2.4	1.6	4.1	3.3	5.1
80	−0.3	−2	1.9	1.1	4.8
81	2.3	−2.0	0.2	0.2	4.0
82	−1.9	1.8	−1.1	2.0	3.0
83	3.7	3.3	1.3	0.7	3.0
84†	6.8	2.1	2.5	1.4	5.5
85†	3.0	3.1	[illegible]	[illegible]	[illegible]

Source: OECD/Phillips & Drew

OIL REFINARY THROUGHPUTS

(million b/d)

	U.S.	W. Europe		U.S.	W. Europe
1973	12.6	15.1	1979	14.6	14.2
1974	12.3	14.2	1980	13.5	12.9
1975	12.5	12.4	1981	12.6	11.8
1976	13.4	13.6	1982	11.8	11.5
1977	14.6	[illegible]	1983	11.2	11.1
1978	14.8	13.6			

Source: BP

MAIN OIL PRODUCERS 1983

(million b/d)

U.S.	8.655	UK	2.38
S. Arabia	5.33	Venezuela	1.86
Mexico	2.86	Indonesia	1.315
Iran	2.83	Nigeria	1.248

Source: BP

INFLATION

% change annually

	U.S.	UK	France	W. Germany	Japan
1973	6.3	9.1	7.4	6.9	11.8
74	10.9	16.0	13.7	7.0	24.3
75	9.2	24.2	11.7	6.0	11.8
76	5.8	16.5	9.6	4.3	9.3
77	6.5	15.9	9.4	3.6	8.1
78	7.6	8.3	9.1	2.8	3.8
79	11.3	13.4	10.7	4.1	3.6
80	13.5	18.0	13.3	5.5	8.0
81	10.4	11.9	13.3	5.9	4.9
82	6.2	8.	12.1	5.3	2.6
83	3.2	4.6	9.6	3.0	1.9
84†	4.3	5.0	7.6	2.4	2.3
85†	4.8	5.3	5.5	2.3	2.8

† Estimate.

Source: IES

UK NEWS

INSURANCE

Outlook for profits boosts prospect of revival on bourses

LAST YEAR'S performance of the insurance industries in the U.S., the UK and most other world markets were arguably the worst ever. The U.S. industry is estimated to have turned in a pre-tax loss of $3.75bn and seen an 8 per cent fall in surplus. Insurance operations in the UK would almost certainly show the lowest ever pre-tax profits (in real terms) for decades.

Yet perversely, 1984 was generally a successful year for insurance stocks, according to the latest review of the international insurance market from London stockbrokers, Wood Mackenzie, covering the final quarter of 1984.

The Capital International Insurance Index outperformed the Capital International World Index by 6.4 per cent over 1984, with 5 per cent coming in the final quarter.

Even more perversely, the area of strength for insurance stocks was the U.S. – an insurance market where conditions have been described as a blood bath. Time after time, shareholders in U.S. insurance companies were confronted with disastrous results. Yet, according to Wood Mackenzie, ten out of the top 15 U.S. insurance stocks outperformed their market over the year, with 13 stocks outperforming the market in the final quarter.

Wood Mackenzie attributes this apparent inverse relationship between the decline in earnings and the price performance to the U.S. stock market as being due to a belief that the recovery in commercial insurance lines is on the way.

Apparently the market feels sure this time that the bottom of the adverse insurance cycle has been reached.

The review points out that premium rates in most commercial lines rose significantly during the second half of 1984, averaging around 15 per cent. It feels that there should be further substantial rate increases this year. Workers' compensation business has lagged behind other commercial lines in increasing rates. But these are now being improved, particularly in the key states of California and New York.

However, Wood Mackenzie urges a certain degree of caution over the bullish prospects for the U.S. insurance market – a caution necessary after so many false dawns seen in the past few years.

Firstly although personal insurance lines have not fared so badly as commercial lines, rate increases for this insurance business have only been marginal and may not match rises in claim numbers and claim costs.

Secondly, it is generally reckoned that the U.S. insurance industry is around 10 per cent under-reserved and that this could result in some rather unpleasant surprises on certain company accounts.

Finally, the rate increases that have been made are not expected to work through to the profitability of insurers until the second half of this year.

Wood Mackenzie anticipates U.S. insurance brokers to lead the recovery in the insurance market because of their concentration on commercial insurance lines, and that improvements in profitability could be seen in the first part of this year. This recovery is likely to be followed by better results from the commercially-orientated insurers in the second part of the year, with the poorest results coming from those insurers which are heavy personal lines.

In contrast, UK investors were much more sceptical last year over the prospects of the UK insurance industry, despite premium rate increases in many commercial risks and in certain personal insurance business, particularly house contents premiums.

Only three out of eight major companies outperformed the market over the year, with a dull performance in the final quarter.

However, Wood Mackenzie feels that UK investors will follow the lead of U.S. investors during this year and react to the premium increase made last year and being made this year.

Elsewhere in the world, the leading Japanese insurers outperformed their local market in the final quarter of 1984. The review claims that in dollar terms the three major Japanese insurance companies were among the best performing major insurance stocks during 1984.

The major insurance and reinsurance companies in West Germany, Switzerland and the Netherlands all performed well overall

Eric Short

Technology called up for payphone rescue

International telephone authorities are trying to thwart vandalism and lift returns on public payphones. Reports by Jason Crisp in London, Jurek Martin in Tokyo, David Marsh in Paris, John Davies in Frankfurt and Rivka Nachoma in New York.

THE JAPANESE have long been used to having public payphones on the Shinkansen bullet trains. In the U.S. they have even been experimenting with payphones on aircraft. While Britain may soon have payphones on coaches and ferries.

Telephone authorities are jumping at the opportunity to use new technology to spread and improve the use of their public payphone services almost all of which lose money. One result is a baffling array of new cashless payphones to thwart the internationally popular pastime of robbing the coinboxes.

The French authority, the DGT hopes to persuade the other authorities to adopt the locally developed "smart card," a plastic card that contains a microprocessor and memory and can be used in a variety of banking, retailing and security applications. Standardisation would be a big boost for Bull, the French computer group, which is the main manufacturer and has recently signed a technological link-up with Philips of the Netherlands.

The French have ordered 1m of these card for telephone applications and the chips are made in Scotland by the U.S. electronics group Motorola. International talks are at a very early stage and other French initiatives for European co-operation in telecommunications such as for digital exchanges and cellular radio have been notable for their failure.

British Telecom (BT) boasted last week that it would build the best public payphone service in the world. But even when the modernisation plan is completed Britain will be poorly served compared with other nations. The fact is New York alone has 78,800 payphones, which is more than the whole of Britain with 76,500

Japan, which has a population roughly twice that of the UK, has 12 times as many payphones – 931,000. France has 170,000 and West Germany has 130,000. The total number in the U.S. is thought to be about 1.5m. The British total is boosted by 293,500 privately rented payphones in places like shops, blocks of flats and pubs.

BT certainly does not plan to increase the overall number of payphones. Some 10,000 have takings of less than £185 a year which BT under the terms of its operating licence, could theoretically close after discussions with local organisations. As it became such a delicate political issue during privatisation it is likely to keep the closure programme low. It closed 90 last year.

Like other authorities BT loses heavily on public payphones – $50m on revenues of £102m in the last financial year. The reasons are high maintenance costs because of vandalism and unreliable electro-mechanical equipment and poor usage because so many call boxes are unpleasant or not working.

BT has recently put up payphone charges sharply – as much as double in some cases. In the U.S. the payphone charges have also been going up. New York has recently seen the minimum charge go from 10c to 25c, following a number of other states.

A storm of protest erupted in West Germany early last year after the Bundespost tried to increase the cost of a local call from 20 pfg for eight minutes to 30 pfg. After public protest it backed down. It now charges 20 pfg for the first time period and 30 pfg thereafter. The increase is expected to halve the deficit on the service to about DM 170m ($53.4m) this year.

Even the Japanese are losing money on their payphone service, which generates revenues of Y282bn (£1bn). Nippon Telephone and Telegraph, however, will not specify the losses.

Last week BT noted with some envy that vandalism in New York seemed mainly to be directed at the subway system – which unlike Britain has lots of payphones – while the favourite target in the UK was the familiar red public callbox.

Phonebox vandalism is not a problem peculiar to Britain. In France each of the country's 170,000 telephone cabins are damaged wantonly on average once a year. In West Germany one in two public telephones were destroyed or robbed during 1982.

Even in Japan – which in most respects is remarkably crime-free – there is some vandalism of public telephones according to the Ministry of Posts and Telecommunications. However our man in Tokyo has yet to come across a vandalised telephone in over two years there.

David Brindle reports on the end of the longest strike yet in the Civil Service

A dispute that affected 12m people

THE LONGEST strike in the history of the Civil Service will end tonight with the resumption of the night shift at the Department of Health and Social Security (DHSS) computer centre at Longbenton, Newcastle upon Tyne.

The 36-week strike – over the shift payments and rosters of 400 computer workers – has affected at least 12m recipients of pensions, child benefit and other DHSS allowances. It has forced the recruitment of 5,300 additional civil servants and has caused the temporary reprieve of some post offices, scheduled for closure, for emergency payment procedures.

The full costs are at present incalculable. The DHSS admits to £85m to the end of last month; the unions say £150m. The bill will keep rising until June, when the computer system should be more or less back to normal.

The target savings on shift payments at Newcastle – the cause of the dispute – were only £700,000 a year. The unions say that from the outset they were willing to make concessions that would have left the management only £46,000 a year short of its goal.

Why did such a costly strike occur and why was it allowed to drag on for so long at so much cost to the nation? The unions argue that the issue was essentially a local dispute over local problems. They say that there was no precedent to be established (each Civil Service computer centre has different shift patterns) and that they were prepared to negotiate on staff savings.

At the same time, they say, the DHSS/Government must have been aware that the Longbenton computer centre is the power base of the left-wing Militant Tendency faction within the Civil and Public Services Association (CPSA), the main union involved, and that the potential for sparking off a dispute was high.

To this, the DHSS replies that there was a precedent to establish – a precedent demonstrating that it was not prepared to compromise on its intention to run the social security system as economically as possible.

Mr Tony Newton, the Social Security Minister, says: "Our ability to do this has been clearly established by the determination we have shown in this dispute. To say that savings of any particular size are not worth achieving is a very slippery slope down which you just cannot go."

Once the potential for savings had been identified in a local audit report, management proposals were presented to the unions in October 1983. The unions had three months to consider the plans before negotiations began in January 1984. Talks went on until the strike started in May

"The implications of a dispute at Newcastle were clearly recognised by management and ministers at the time," Mr Newton says. "Ministers decided it would not be right to depart from a general philosophy of making the best use of resources."

On the part of the DHSS, then, the dispute appears at the root to have been about management's right to manage. But the unions think there is another lesson to be drawn – a lesson with important implications for the Government's strategy of decentralisation throughout the Civil Service.

Because of a "hands off" policy in London, the unions contend, the Newcastle management was left to pursue its own cost-cutting, regardless of the wider industrial relations consequences. By the time there was intervention at national level, the damage was done.

Mr Alistair Graham, CPSA general secretary, asked: "Didn't anyone ever sit down and consider what it was going to be worth in terms of public funds to achieve cheaper shift-working at Newcastle? Who is making these decisions in the new-style Civil Service?"

Ms Judy McKnight, assistant secretary of the Society of Civil and Public Servants, who represented about 40 higher grade staff during the dispute, says: "No private company could ever have afforded to take such an approach towards a dispute."

The DHSS response is that its senior officials intervened in the dispute as early as mid-March, two months before the strike began. Subsequent negotiations were moved to London. In April, talks were attended by both Mr Newton and Mr Rhodes Boyson, his predecessor, who was perceived by the unions as intransigent.

According to Mr Newton, an offer made then was "very little different" from the terms ultimately accepted by the strikers, offering a two-year guarantee of present shift payments to existing staff, rather than the eventual three-year guarantee.

Two further points should be made about the strike. Firstly, it marked the first full intervention in a Civil Service dispute by the conciliation service, Acas – a move more significant as a precedent than for what it achieved.

Union leaders think that recourse to Acas earlier in the dispute, which might have proved more beneficial, was thwarted by antagonism towards the service and even ignorance of its functions in some Whitehall quarters.

Secondly, the dispute proved to be the catalyst for the final splintering of the left-wing within the CPSA. Militant Tendency, which wanted to escalate the strike, was defeated by an alliance of right-wingers and most of the rest of the left on the union's national executive.

As a result, Militant finds itself isolated within the CPSA and the formal split on the left may hand control of the union back to the right.

In this regard, the right-wing of the CPSA is likely to see the £750,000 the union ploughed into the dispute as money well-spent. It will not be alone. As Mr Newton says, "In the view of some of the people in this dispute, there was an element of challenge to the Government. I see the outcome as a victory for responsible trade unionism."

Sleipner decision taken by Walker

By Dominic Lawson and Ian Hargreaves

THE DEPARTMENT of Energy has finally made its mind up on whether or not to import $30bn of gas from Norway's Sleipner field. Mr Peter Walker, the Energy Secretary, is expected to inform Whitehall departments of his decision later this week.

The British Gas Corporation has persistently argued that the purchase – which would be the biggest single trade deal in UK history – is necessary if the corporation is to meet a shortfall between UK gas demand and supplies in the 1990s.

British Gas, however, appears increasingly convinced that the Department of Energy has gone sour on the deal. In particular, the Sleipner gas is dollar-denominated and now appears to be several billions of pounds more expensive than when it was negotiated between the corporation and Statoil, of Norway, a year ago.

In a last attempt to sway the Department of Energy, British Gas has just presented to officials scenarios which show that by the time Sleipner starts production, the cost of the supplies would most likely be no more than 15 per cent higher than the cost of sterling-denominated gas from the UK sector of the North Sea.

The Sleipner price is escalated in line with the dollar price of oil products, which has been falling. But UK gas producers prices are linked to the sterling value of oil products, which have been rising rapidly

The Department of Energy has been the subject of an intensive campaign by oil companies, led by British Petroleum, which have sought to prove that they can find and develop enough gas in UK waters to satisfy Britain's demand

The Norwegian Energy Minister, Mr Kaare Kristiansen, has demanded a statement in principle on the deal from the UK Government by the end of this month. A British "no" could still be hedged with an assurance that, if the oil companies turn out to have been over-optimistic, then the UK would still be interested in buying Norwegian gas.

Last month Mr Kristiansen said that if the UK vetoed the deal, Norway would begin to plan the sale of gas from the vast Troll field, the world's second largest offshore gas discovery.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Current
Harrogate International Toy Fair (01-226 6653) (until January 17) — **Harrogate**

January 15-18
Which computer? Show (01-891 5051) — **NEC, Birmingham**

January 17-20
Ideal Home Exhibition (0202 886933) — **Metropolitan Exhibition Hall, Brighton**

Janurary 17-20
International Contemporary Art Fair (01-486 1951) — **Olympia**

February 12-24
International Catering Exhibition—CATERBRIGHT (01-222 9341) — **Brighton**

February 17-19
International Trade Show for Home Computers, Software and Leisure Electronics—LET (0923 777000) — **Olympia**

January 20-24
International Lightshow Exhibition (05894 658) — **Olympia**

January 26-30
Stationery Industry Exhibition—STATINDEX (01-385 1200) — **Olympia**

January 26-30
British Toy and Hobby Fair (01-701 7127) — **Earls Court**

January 30-February 3
International Swimming Pool and Leisure Show. (Trade: Jan 30-31) (073522 2875) — **Wembley Conference Centre**

February 3-7
International Spring Fair: Gift Show (01-855 9201); Hardware and Housewares Show (0604 22023) — **NEC, Birmingham**

February 8-10
Cruft's Dog Show (01-493 7838) — **Earls Court**

February 10-13
International Men's and Boy's Wear Exhibition (021 705 6707) — **Olympia**

OVERSEAS TRADE FAIRS

Current
Fashion Show (01-486 8686) (until January 16) — **Rio de Janeiro**

January 21-25
International Record and Music Publishing Market — MIDEM (01-499 2317) — **Cannes**

February 9-13
International Exhibition of Women's Ready-Made Clothing—Pret-a-Porter (01-439 3964) — **Paris**

February 23-27
International Spring Fair (01-734 0543) — **Frankfurt**

January 30-February 2
International Instrument Control, Automation Measurement and Testing Show — INSTRUMENTASIA (01-486 1951) — **Singapore**

January 30-February 2
The International Building Materials and Systems Show (01-486 1951) — **Hong Kong**

February 4-7
Middle East Electronic Communications Show and Conference—MECOM (01-486 1951) — **Bahrain**

February 8-17
International Boat Show (01-486 1951) — **Helsinki**

February 20-24
International Holiday Fair and Exhibition — FERIENMESSE INTERNATIONAL (01-891 2606) — **Vienna**

BUSINESS CONFERENCES

January 20-25
Tavistock Institute/Institute of Human Relations (Zurich); 1985 Tavistock working conference on rethinking, implementing and managing organisational change (01-435 7111) — **Minster Lovell**

January 22-23
FT Conference: Pensions in 1985 (01-621 1355) — **Inter Continental Hotel, W1**

January 22
The Institute of Purchasing and Supply: Basic arts of buying (0780 56777) — **Cumberland Hotel, W1**

January 23-25
Management Centre Europe: Business frauds—their prevention and detection (Brussels (02) 516 19 11) — **Portman Hotel, W1**

January 25
ESC: Taxation of exchange risk management (0572 822711) — **Selfridges Hotel, W1**

January 28-30
FT Conference: Seminar on the City as a financial and trading centre (01-621 1355) — **Skinners' Hall, EC4**

January 30-March 6
IPM: Flexibility in working-time—cost effective initiatives for managers (01-946 1000) — **Embassy Hotel, W2**

January 30
Chatham House: Indonesia at the start of the fourth five-year plan (01-930 2233) — **London, SW1**

January 30
Institute of Management Consultants/Department of Engineering Production, Birmingham University: Managing the 1990s—A framework for business planning (01-584 7285) — **Birmingham University**

January 31
Foundation for Science and Technology: Seminar on technology transfer within the EEC (01-608 0421) — **RSA House, London**

February 4-8
Risk Research Group: Reinsurance practice (01-236 2175) — **Kensington Palace Hotel, W8**

February 14-15
Risk Research Group: The future of Lloyd's (01-236 2175) — **Great Eastern Hotel, EC2**

February 18-19
Open Computer Security: The International Data Security Conference 1985 (0273 672191) — **Dorchester Hotel, W1**

February 20-21
FT Conference: The Third Automated Manufacturing Conference (01-621 1355) — **Inter Continental Hotel, W1**

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

Tories threaten rebellion over EEC payment

BY PETER RIDDELL, POLITICAL EDITOR

THE BRITISH Government faces a further revolt tomorrow by Conservative backbench MPs, this time over a £119m supplementary finance payment for the EEC.

The rebellion is the latest in a series of increasing complications for the Government in its legislative and finance programme, notably over transport and local government issues.

The House of Commons is due to hold a three-hour debate tomorrow on a special supplementary estimate being sought as part of the inter-governmental agreement of last autumn to provide extra finance for the EEC. It will be a reimbursable advance and is needed to allow the EEC to pay various benefit subsidies, including those to British farmers.

Mr Ian Stewart, the Economic Secretary to the Treasury, faced highly critical questions, particularly from senior Tory MPs, when he gave evidence on the estimate to the cross-party Treasury and Civil Service Committee of the House of Commons last Wednesday. The committee is due to complete a report on the subject this afternoon in time for publication ahead of the debate.

Conservative critics of the estimate are likely to include not only long-standing opponents of Britain's membership of the EEC such as Mr Teddy Taylor and his allies, but also a more mainstream group of members concerned with holding down public spending.

The debate is likely to provide an indication of the level of opposition later this year to the proposed increase in the EEC's "own resources," payments related to a levy on value added tax (Vat).

The Government business managers face other difficulties in the Commons in coming weeks:

- On Tuesday evening there will also be some Conservative opponents to the bill requiring parental consent for the use of corporal punishment in schools.
- Sizeable opposition from Tory MPs, especially from rural areas, is expected to parts of the forthcoming Bus Bill, which permits increased competition in the provision of bus services.
- The existing substantial backbench protests against the proposed squeeze on local authority capital investment, particularly housing, is likely to mean that the detailed order implementing the decision is not debated for several weeks.
- Opposition by Tory, as well as other MPs to large scale development of Stansted airport in Essex will be expressed when the inspector's report on airports policy is debated shortly. This may mean that the temporarily shelved Civil Aviation Bill will have to be dropped.
- Ministers have been warned of widespread opposition, including some from usual supporters of Treasury policy, to the imposition of taxation on occupational pension schemes in the budget.

The Government and Opposition parties have also been unable to reach agreement on how to proceed with the Representation of the People Bill, which proposes raising election deposits and giving votes to holidaymakers and British citizens resident abroad. Such an agreement is necessary since the committee stage of the Bill will be on the floor of the House of Commons and is therefore open to obstruction and time-wasting.

British Rail warned over damages case

BY DAVID GOODHART, LABOUR STAFF

MR JIMMY KNAPP, the general secretary of the National Union of Railwaymen (NUR), warned yesterday that any move by British Rail to claim damages in the courts because of last Thursday's partial rail stoppage could result in an all-out strike.

He said: "We have had no indication of what BR is thinking on this – except through the press – but if they do go ahead with a damages case we would certainly have to consider an all-out stoppage."

In the run-up to a crucial meeting of the industry's Rail Council tomorrow, senior management figures in BR have been making increasingly tough comments on legal action, on reviewing the £500m a year freight business and on linking any pay rise this year to an end to the blacking of coal movements. The stoppage last week was called by the two manual rail unions, because of alleged harassment of their members for refusing to move coal trains in support of the striking miners.

Mr Knapp said that before any formal response could be expressed to any use of the 1984 Trade Union Act to seek damages against the two unions, the network would be engulfed in "spontaneous action."

He also criticised the plan to review the freight business because of £270m losses caused by the 10-month-old coal strike which is likely to mean the axing of another 600 jobs in addition to the 120 already announced.

The ability of the rail unions to present a strong and united front to the BR board will be made more difficult by the small but growing Federation of Professional Rail Staffs, which is not a member of the Trades Union Congress.

Mr Geoff Butler, vice-chairman of the 2,000-strong federation, claimed yesterday that all 57 members of the Edwinstowe branch of the NUR in Nottinghamshire have joined the federation.

Mr Knapp said last night that there has been a dispute for over a year about whether to disband the branch and split its members between two larger branches. The argument has recently become embroiled in the differences over supportive action for the miners, but Mr Knapp said the case was still going through the machinery.

Ansbacher Holdings chief resigns

MR CHARLES WILLIAMS has resigned as managing director of Henry Ansbacher Holdings, the London merchant banking group for which he engineered a capital reconstruction last year.

Mr Williams, aged 51, is also stepping down as chairman of Ansbacher's banking subsidiary, although he will stay on the group board as a non-executive director. His replacement is Mr Richard Fenhalls, 42, formerly chief executive of Guinness Mahon, who was recruited last month by Mr Williams as the bank's deputy chairman.

The group says that Mr Williams, a former managing director of Baring Brothers, is departing to pursue other business interests. Mr David Le Roy-Lewis, Ansbacher's chairman, said yesterday he had no knowledge of any other board resignations.

Ansbacher's expansion of recent years is largely credited to Mr Williams, who joined the group in 1979. He was instrumental in attracting Touche Ross, the investment group, to take a 20 per cent stake in the bank three years ago.

Mr Williams was also the architect of a financial reconstruction last May in which Pargesa, the Swiss financial group and its related company, Groupe Bruxelles Lambert of Belgium, agreed to put in £23.3m as new equity and convertible loan stock, giving them a 29.9 per cent stake in Ansbacher.

□ **SINCLAIR** said that orders for its £400 C5 electric three-wheeler vehicle had passed 1,000 last Thursday a week after its launch. The company, founded by Sir Clive Sinclair, has set a sales target of 100,000 for this year.

Sinclair, commenting upon what appears to be a slow start to sales, said that mail orders for the vehicle had not begun to arrive in volume until Friday. It said it was well prepared to meet the specifications for continental Europe where it plans to launch the vehicle in the summer.

□ **CONTROLS** on the export of steel pipes and tubes to the U.S. are likely to have little effect on UK output. Under the agreement reached between the European Community and the U.S. Government on limiting these exports to 7.6 per cent of the U.S. market, British producers will have a 0.4 per cent share.

British Steel, the main producer of pipes and tubes in the UK, said the corporation had already substantially reduced its sales in the U.S. because of its vulnerability to countervailing duties.

Total UK, exports of pipe and tube to the U.S. last year were about 35,000 tonnes, down from a peak of 104,600 tonnes in 1981.

□ **LORD BALOGH**, the controversial Oxford economist who was an influential adviser to Prime Minister Harold Wilson in the Labour Governments of 1964 and 1970, died yesterday aged 79, after an illness.

He was a critic both of *laissez-faire* economics and of the more mechanistic styles of planning. He was widely known for his writings on market economics and for his contribution to the economics of developing countries. He had published works on the economies of many countries, including Malta, Jamaica, Iraq and Mediterranean and African countries.

Jaguar's exports reach record

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

EXPORTS of Jaguar cars reached a record 25,880, worth about £500m at showroom prices, last year, the company said yesterday. This compared with 1983 exports of 22,141 cars worth about £420m.

The figures suggest that Jaguar's contribution to the UK balance of payments last year was roughly £400m, up from about £300m in 1983.

Jaguar benefits from the strength of the U.S. dollar because more than half its total sales are in the U.S., by far its biggest individual market. The company is now the main UK exporter to the U.S. – the value of its exports there is greater than Scotch whisky.

Last year a record 18,044 Jaguar cars were sold in the U.S., up by 14 per cent from the 15,815 in 1983. December was the company's best yet sales month there. For the first time, Jaguar sales topped 2,000 in a month.

At the same time, Jaguar has been re-establishing itself in other key markets. In West Germany, home of its main competitors – Mercedes and BMW – sales last year jumped by 60 per cent to a record 1,950 cars. Jaguar is becoming confident that, by the end of the 1980s, it can achieve 6,000 sales a year in West Germany for a 10 per cent share of the luxury car sector.

Jaguar's registrations in the UK last year improved by 7 per cent to 7,544 cars. The company's sales worldwide were at a record 33,424 cars in 1984, 14.6 per cent ahead of the 29,175 in the previous 12 months.

The company hopes to expand sales and production (33,437 last year against 28,041 cars in 1983) by about 10 per cent in 1985 to well over 36,000. In view of this target, it seems highly unlikely that Jaguar will introduce this year the XJ40.

Solex and Impco start joint venture

BY JOHN GRIFFITHS

SOLEX, the UK-based carburettor and liquefied petroleum gas (LPG) fuel systems manufacturer, is to start production of LPG systems equipment in London for a joint venture it is setting up in the Netherlands with Impco Carburetion of the U.S.

The venture is expected to mark another stage in the recovery of Solex, formerly Zenith Carburettors, after restructuring and heavy losses during the late 1970s and early 1980s. The company lost more than £3.5m between 1980 and 1982 and more than halved its workforce to 650. Its turnround began with a pre-tax profit of £360,000 in 1983.

The venture is to market Impco-branded LPG and natural gas fuel systems equipment throughout Europe via a joint company, Solex-Impco Europe.

The London plant is operated by Solex (UK), which is increasing its 250-strong workforce by about 10 per cent to handle the new business.

Solex already has a significant presence in the 100,000 units a year European market for systems which convert petrol vehicles to run on LPG. Two years ago it acquired Landi-Hartog, the Dutch-based manufacturer which has a 20 per cent share of the market.

British consortium gains stake in £2bn Cairo project

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

A JOINT venture between Britain's Tarmac, Balfour Beatty, Cementation and Edmund Nuttall and the Egyptian company Arab Contractors has won a £100m contract for the latest phase of the £2bn project to install new main sewers in Cairo.

Letters of intent for the contract, with the Egyptian Government's Greater Cairo Wastewater Committee, have already been received, but the formal signing ceremony is not expected to take place for another two weeks.

The contract involves boring a 6km, 5m diameter main sewage tunnel through the centre of Cairo, from Abdèen to Ein-el-Siera on the east bank of the Nile.

The Tarmac, Balfour Beatty, Cementation, Edmund Nuttall and Arab Contractors consortium has already won a £95m contract for an earlier phase of the Cairo sewer project announced in June 1984.

"The two contracts will run concurrently, so that the whole job will be finished in three and a half years," said Mr Bernard Woodman, Tarmac International Chief Executive.

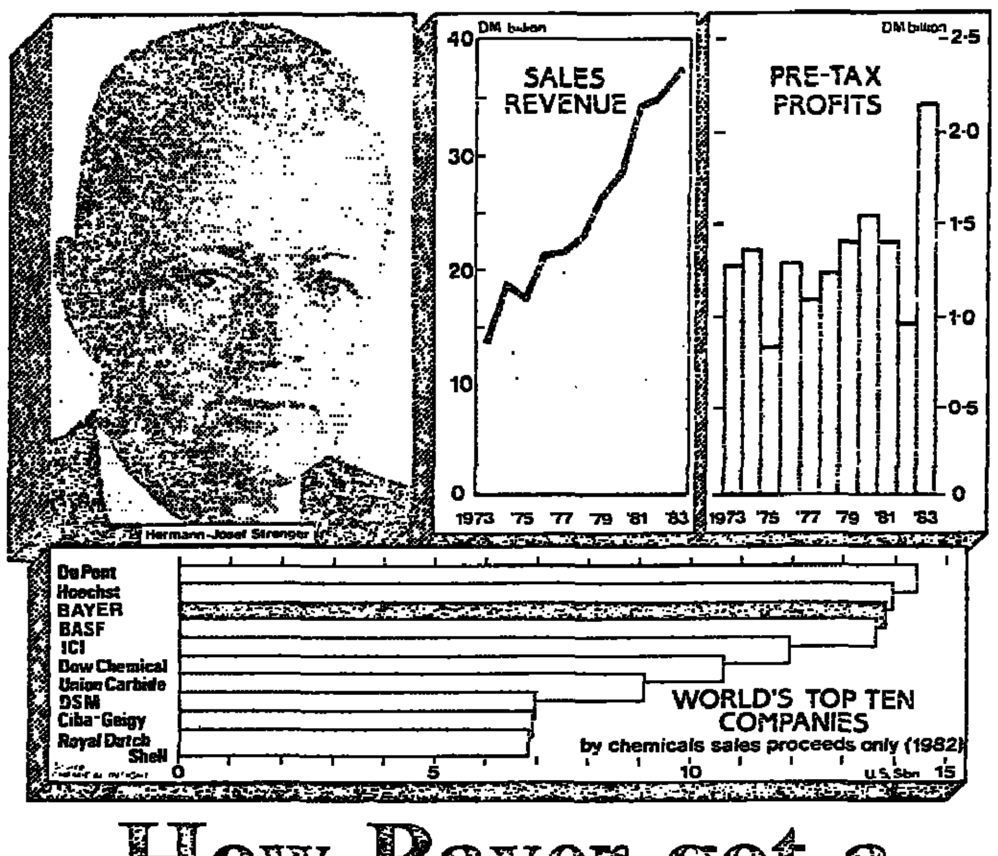
Building the £120m water treatment plant is the next stage of the wastewater contract for which the consortium will be bidding.

Rival bidders were Fairclough, Lilley with the Egyptian company Misra Engineering, and a Costain-led consortium. All the £1bn work on the east bank of the Nile is being carried out by British contractors working in conjunction with local companies. The work is being financed with British backing. Work on the west bank – costing another £1bn – is being carried out by U.S. and local companies with U.S financial backing.

The £2bn Cairo sewage project is the largest undertaking of its kind in the world. It involves replacing a system installed at the beginning of the century which is now so overloaded because of the city's expanding population. Some areas of Cairo have up to two hundred sewage floods a day.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ



How Bayer got a grip on its markets

John Davies talks to the chemicals group's new chief executive

COMPANIES have to take risks if they are to be geared up for the future, maintains Hermann-Josef Strenger. "If you don't want risks or surprises, then you should put your money in the bank."

As the new chief executive of Bayer, one of the world's biggest chemicals companies — as are West Germany's other two chemicals giants, Hoechst and BASF — Strenger is well aware of risks and surprises and the potential enormity of their cost.

Strenger concedes, for example, that Bayer's setback last year through Schelde Chemie's plans to shut down a newly built anthraquinone plant (to make products used in dyestuffs) at Brunsbuettel, in northern Germany, came as a surprise.

Schelde Chemie, a joint venture of Bayer and Ciba-Geigy of Switzerland, concluded that the plant was no longer technically feasible and the closure, along with the latest in a long series of run-up costs, placed a DM 350m (£100m) burden on Bayer's accounts last year.

Overall, though, Bayer has managed a sharp recovery in the last two years and Strenger's objective is to consolidate on this and bring about a basic improvement in the group's financial performance.

This involves getting to grips with a widely scattered and increasingly diversified chemical, pharmaceutical, fibres and related group whose sales worldwide have risen to well over DM 40bn a year and which has 175,000 employees.

Like BASF and Hoechst, Bayer has built up extensive interests abroad. Its domestic sales now make up little more than 20 per cent of its total revenue, and boosted by the strong dollar, its U.S. sales actually exceeded those on its home terrain last year for the first time ever.

The growth and internationalisation of Bayer are reflected in a new management structure brought in a year ago. Under this system, the management board (Vorstand) is freed from the task of exercising detailed operational control in order to concentrate more on longer-term issues and on company strategy in a worldwide context.

In such a vast concern, Strenger has the advantage of having climbed the ladder inside the organisation since joining Bayer as a commercial trainee 35 years ago. He has absorbed its sense of tradition and gained insight into its established practices and its internal power relationship.

Strenger, 56, has broken new ground among West Germany's chemical giants by being the first chairman not to have a background in chemistry. He says he has always had reservations about the West German tradition that only a chemist was the right man to head a chemical concern and says that, in 13 years on the management board, "I have come to the conclusion that quite different qualities apart from specialist knowledge are required of the man at the top of a company."

He has taken on the top job at a relatively favourable time, with soaring profits lifting the yield on sales and capital to the levels of ten years ago and with the worst problem areas of recent years, including synthetic fibres, under control.

But he has already proclaimed *that an improvement in earnings* in relation to sales and capital "must and will be" at the centre of Bayer's efforts in the years ahead.

Strenger is adamant that weak spots in the group must be analysed and "necessary decisions taken." Bayer has already taken drastic restructuring measures in recent years to overcome loss-making problems, for example the amateur photography division of its Agfa-Gevaert subsidiary.

Strenger sets great store on Bayer's new management structure to guide the group and guard against particular uncertainties facing chemical and pharmaceutical concerns. He believes the structure has proved satisfactory to board members and executives below them.

"Members of the management board are no longer responsible for operating units," he says. "They can concentrate in their work on the medium and long-term strategic orienta*tion of our concern. They can* deal with the top priorities."

Instead of product divisions, as before, Bayer has grouped its worldwide activities into six sectors, most of which contain several operating business areas, for example plastics/fibres/rubber and agricultural protection/veterinary products.

In addition, administration and services, such as marketing and research, have been reorganised.

Board members no longer have individual responsibility for product divisions or for administrative or service areas. But because of Bayer's internationalisation, the board members retain responsibility for various countries.

They also form seven committees to deal with such fields as finance, research and development, environment, and co-ordination. Bayer at present has 12 management board members, but it envisages that the number will eventually *decline*.

Strenger believes that the new management structure has brought operations closer to the market place, has shortened decision-making processes and has introduced greater flexibility. Within this framework, Strenger himself heads the management board's co-ordination committee and is a member of its finance committee.

However, particularly because of the nature of the chemical and pharmaceutical industries he is sceptical of any management practices aimed at totally eliminating costly "surprises" in business.

"If you are engaged in business activity, if you are permanently ready to take risks, then you find that risks might lead to setbacks," he says. "I am of the opinion that a manager, however things are organised or controlled, is never safeguarded against some surprises."

The Schelde Chemie problem, he remarks, "was a great surprise to me." None the less, his explanation of its cause indicates the probability of such events occurring. "What happened?" he asks. "Through our researchers, in our laboratories, we tried to find a way to make anthraquinone in a more economical and environmentally favourable process. The second stage: we built a pilot plant. This started operating and made large quantities *of anthraquinone* without problems. Third stage: to make a transition from the pilot installation to a large-scale installation.

"And now comes the crazy phenomenon of chemistry," he says. "We have not succeeded in transferring the knowledge that we gained from the pilot plant to the large-scale mass production plant."

Strenger also concedes that risks are involved in the de*velopment of pharmaceuticals.* It might take 8-10 years to obtain all necessary approval for a pharmaceutical item, with development costs of DM 150m-200m. "And it can happen that after one to two years, after daily use, side-effects can be such that you have to withdraw the product. That cannot be ruled out."

In the next five years, Strenger believes, pharmaceuticals and agricultural protection materials (which make up about 30 per cent of Bayer's world sales), will continue to determine the company's profile. But he sees growth prospects in a range of inorganic chemicals, such as engineering ceramics, as well as other high performance chemicals and pastics, and the photographic and electronic interests of Agfa-Gevaert.

At the same time, he sees a serious challenge in the import *into* Europe *of products* from petrochemical installations coming on stream in the Middle East. Nevertheless, he believes that Erdoelchemie, Bayer's petrochemical partnership with British Petroleum, will be cushioned by its close link as a supplier to Bayer.

Screen inks

Sericol: imprinted with a pan-European identity

BY WALTER ELLIS


Alex de Gelsey (left) and Bela Daranyi: Burmah was sufficiently impressed to buy them out in 1983

TEN YEARS ago, Britain was a net importer of screen inks, the raw material for screen printing, practised on surfaces as varied as tee-shirts and printed circuit boards. Today, it is a net exporter, and much of the credit for this must go to Sericol, a small, but highly profitable subsidiary of Burmah Oil.

More than 50 per cent of Sericol's UK production is exported, and products are also manufactured under licence in Australia, Japan, Mexico, New Zealand, Singapore and Spain.

It is not enough, Sericol believes, for a company to *wish* to sell in Europe: without a solid grasp of European business practice, a thorough knowledge of several European languages and a properly researched market strategy, mere wishing is like possession of the . . . key to an empty room.

Where the Kent-based company, with its workforce of 500, has scored, has been in its percention of *itself as* European — *part of the international* framework in which it operates. Thus, it behaves in a "European" fashion whether the customer is in Pontefract, Paris or Budapest.

All products and their instructions are detailed in four languages; all volumes have been metric since 1973; every overseas salesman must be at least bilingual; distribution extends naturally from Kent to depots in England, Ireland, France, Switzerland and West Germany.

Already, Sericol is preparing for Spanish membership of the European Community, expected in 1986. At present, the company has a licensing agreement with Spain, but a seven-year strategy is now being drawn up to begin on the first day of accession. It has discovered that the Spanish would prefer to import screen inks rather than manufacture *on a small scale*, and Sericol is preparing for a graduated penetration of the market that would enable it to withstand losses over the first three years.

France is a market close to home (especially viewed from Kent), and after moving into the market in 1973, Sericol now has 20 per cent of French screen-ink sales. It has depots in Velizy, south of Paris, Lyons and Lille.

West Germany was an obvious market. It has a long tradition in screen printing and in the manufacture of inks generally, and Sericol has responded with units in Mulheim, Hamburg and Stuttgart.

The choice of Switzerland as a location for growth was based on rather different criteria. As a market it was certainly not without importance, but more than that it was seen as a test-site, straddling the Franco-Germanic worlds. It offered three languages, three cultures and a very demanding clientele. If one could succeed in Switzerland, one could succeed anywhere.

At home, Sericol is reminded of its increasingly pan-European identity by a regular passage of overseas screen printers through *its* training school. The courses offered are part of the company's overall strategy to provide a complete service to customers, training printers—and managers—from Britain and Europe and, in the process, cementing them more firmly to Sericol.

Perhaps it is not surprising that the Burmah *subsidiary* has so European a face. The company was founded in 1951 by Alex de Gelsey, a refugee from wartime Germany, and his closest colleague is Bela Daranyi, who fled from his native Hungary in 1956.

Daranyi has not forgotten his Hungarian roots. He visited Budapest recently to give a talk on screen printing and hopes, amid the new climate there of the mixed economy, to attract orders.

Sericol has, of course, had its problems. In the 1980-81 period, exports came under pressure because of the strength of sterling. But productivity was improved and a high proportion of earnings were reinvested to heighten efficiency and reduce costs. Burmah Oil, in the market for additions to its speciality chemicals division, was impressed and bought out the three shareholders, *including de Gelsey* and Daranyi, in 1983. No details of Sericol's performance within the chemicals division have been given. It is known, though, that it accounts for a significant proportion of group sales, up from £80m in 1982 to £100m last year.

THE ARTS

Architecture

Colin Amery

The architecture of port and cigars: Moundsmere Manor by Sir Reginald Blomfield, designed in 1908

The poor man's Lutyens

Every time you see Mrs Thatcher posing with visiting political leaders outside the front door of Chequers you are also looking at the work f the Edwardian architect Sir Reginald Blomfield. When he was first called in to take a look at Chequers Court in 1892 he thought that the house was "extremely ugly and very inconvenient." It took Blomfield to rip off all the stucco and take the house back to ist Tudor origins. The main central hall, partly panelled with a screen, is entirely Blomfield's idea of how a great Tudor house should look.

In common with so many Edwardian architects Blomfield was scholarly about the past, keen to reinterpret it and to reinvent it when it suited him an dhis clients. He did not suffer from our current nervousness about demolishing old buildings—indeed his reputation on that count is highly dubious.

It is time the work of this architect received the attention that has been paid to his contemporaries and this week he certainly does. There is a major exhibition at the Royal Institute of British Architects Heinz Gallery at 21 Portman Square, London W.1, until February 28 and a new book *Sir Reginald Blomfield An Edwardian Architect* by Richard Fellows (Zwemmer, £12.50). The author of the new study of Blomfield also organised the exhibition and this gives the visitor an unusual opportunity to see much of the original material illustrated in the book.

Blomfield was born in 1856 and died in 1942—his career spanning the change from late Victorian to Arts and Crafts architecture and then taking the final step into grand Classical revivalism. For the last 30 years it has been difficult to think of a less popular English architect. To all the followers of the Modern Movement Blomfield represented the empty dogma of the past. He was the villain who had never had an original idea, who was lost in the welter of historicism.

The revival of interest in Lutyens did not help Blomfield. The talent of the former has been seen to be close to genius; Blomfield seems beside him to be pedestrian and pompous. He suffered from this comparison throughout their almost parallel working lives and it would be fascinating to discover exactly what the two rivals really thought of one another. They were such different characters—Lutyens relaxed and convivial, Blomfield scholarly and dogmatic.

The current exposure of his work is revealing. The exhibition of so many of his fine drawings and perspectives shows a powerful consistecy. His style of Classicism is not quite like anyone elses. It is the authentic Edwardian look. You are conscious as you consider a view of a country house that, inside, the marble floors are warm, the radiators will be boxed in beautifully under the windows and the servants' accommodation will be lavish. You can smell the Havana cigars, and hear the cclick of billiard balls.

Of his new houses, Moundsmere Manor in Hampshire (illustrated here) has all the typical Blomfield characteristics. Pala-

Sir Reginald Blomfield

tial references, particularly to Hampton Court, abound. Bathrooms are monumental and the area devoted to the servants is almost half the house.

From the early 1890s be moved away from the Arts and Crafts and developed what he considered to be the true Egnish tradition of Wren-inspired Classicism. He did not see this as an exercise in historicism but as the development of a style suitable to the 20th century. He foresaw the need for large-scale buildings using new materials and his writings and his architecture were used as propaganda for the promotion of this English Classicism.

His urban schemes are the apotheosis of his ideas and they are the ones best known todya. As a member of a committee to advise on the redevelopment of the Quadrant in Regent Street somehow he managed to design all the new buildings himself. We have Bloomfield to thank for the loss of Nash's colonnades. Today it sems sad that his grand design for the whole of the Piccadilly Circus area was never carried out because of problems with leases.

More grossly insensitive were the proposals drawn up by Blomfield for the demolition and replacement of Nash's Carlton House Terrace. Working to the instructions of the Crown Commissioners he designed two large terraces that were about ten storeys high. When Blomfield innocently published his scheme in *The Times* he was staggered by the storm of protest. There was genuine public horror at the suggestion of losing the Nash terraces.

The bitterness of the long fight makes our own conservation battles look positively polite. Although in the end Blomfield lost he had no guilt or shame about destroying Nash whose architecture he considered to be despicable. Blomfield was certain that London needed large *Beaux Arts* gestures and, although he was 76 at the time of the Carlton House Terraces controversy, he did not back down and today the one house at No 4 Carlton Gardens that he did succeed in erecting gives some idea of the quality of the work that nearly replaced Nash.

Both the book and the exhibition show all sides of Blomfield's nature. He had a considerable talent that was controlled by a deliberate conservatism. He objected to the "modern" idea of internationalism and had frequent trenchant comments to make about the spread of modern architecture. Some of his comments can now be seen to have been true. He was right to see the Modern Movement dogmas as just another style. He believed that architecture advanced by evolution rather than revolution. His own work, solid and substantial, demonstrates the advantages as well as the artistic drawbacks of this point of view.

Berglund/Festival Hall

Dominic Gill

The last-minute indisposition of the pianist Ivo Pogorelich, who was to have played Prokofiev's third concerto, left Saturday evening's Royal Philharmonic Orchestra concert under Paavo Berglund with a hole in it which neither Alicia de Larroche (who took over at a day's notice) nor the Schumann concerto which she offered instead were quite able to fill.

Miss de Larrocha gave the Schumann with precise, housewifely firmness. It was one of those performances whose very unprovocative solidity the listener can sometimes at first be grateful for, then mildly irritated by. The opening movement was clean, cogent, unfussed and lacked any sort of effervescent bloom. The grace and easy poetry of the Intermezzo were attractive: but I missed a degree of glorious indulgence, and any hint at all of lusciousness, in either the piano's or the orchestra's delivery of the big central melody. The finale was jolly, efficient, soap-sud tidy.

The programme ended with a well-made performance of Shostakovich's Fifth—not so absorbing perhaps as Berglund's fascinating account of the Sibelius first symphony with th e LSO last November, but full of characteristic touches, and made with admirable finesse. Berglund thinks out all of the music he directs—and that was especially notable in the Sibelius—in unusually long lines, sustained by a deceptively simple, powerful beat.

Just as it was refreshing last year to hear a conductor who underlines the hard colours and rhythmic fierceness of Sibelius, as well as the romance and the craggy soaring, it was pleasing on Saturday to hear emphasised the polyphonic wit and the (sometimes under-acknowledged) subtlety of Shostakovich's instrumental textures. Berglund coaxed some fine individual contributions from his woodwind and horns especially. His first movement was held on a firm rein: even a little unyielding in the way melodies were allowed to unfold, but invigorating in its precise definition and clarity. The central climaxes of that movement, and of the Largo, glittered savagely. The finale—in Shostakovich's words, "what exultation could there be?"—was a tragic tour de force of enforced rejoicing, dourly magnificent.

The Mysteries/Cottesloe

Michael Coveney

If any philistine radical on the GLC wanted to learn something of the value to the nation of the National Theatre he should be gently guided into the Cottesloe where, on Saturday, Bill Bryden's eight-year Mystery Play adventure came to a resounding and unforgettable conclusion. In the morning and afternoon we had *The Nativity* and *The Passion*, the first dating from 1977, the second from 1980. In the evening, Tony Harrison completed his triumph of creating dramaturgy with *Doomsday*, giving us the Resurrection, the harrowing of Hell, the death and ascension of Mary and the Day of Judgment, actors rotating in an incredibly spectacular steel-gramed globe to the pounding diabolic accompaniment of the folk rock band The Home Service.

Mr Harrison's assonant, alliterative and continuously enjoyable text is drawn largely from the Mysteries of York, Wakefield, Chester and Coventry, with a Yorkshire bias throughout. In the last play, the company moves in to another astral plane altogether in its presentation of the secular religion. While we end with the nomination of Peter as Christ's representative, God the Father as a bible-thumper in a black suit has ranted against his own creation on an orange box. Mother Mary's funeral resembles one of those chill Belfast processions we see daily on the TV news, the coffin and mourners followed by musicians blowing a Celtic dirge.

The cycle of birth and death runs parallel to the cunning design anachonisms of the old guilds and the modern trades union and sectarian groupings. As before, William Dudley has hung a glittering firmanent of twinkling orange braziers, dustbins, lights and lamps from the roof, while colourful union banners decorate the top tier and the two balconies are fitted out with heraldic badges of the guilds and industrial implements. The audience can stand in the cockpit (difficult to move around) which is exciting, or sit upstairs like mute dwellers in Purgatory suspended between heaven and earth.

As a company achievement, this project outstrips, in my view, the RSC's *Nicholas Nickleby*, with which it shares a sense of climactic apotheosis. The presentation is endlessly and joyously inventive, from the moment Brian Glover as God on his fork-lift truck despatches Jack Shepherd's yelping pop-eyed Lucifer into a steaming casket below. In *Doomsday*, the sinners will be swallowed in the maw of a rubble clearer; Noah's Ark in *The Nativity* is magically constructed from seemingly odd bits of timber, the flapping of a dove's wing evoked in the brisk shutting of an umbrella; the ascension of Karl Johnson's impressive but undemonstra- Jesus (dumbstruck with disappointment when Barabbas gets the vote) a rising diagonal flight on a billowing sea of cloud.

Within the overall scheme, Mr Harrison and the company have fashioned some astonishing playlets, all of them stitched together by the fluent processional staging and, above all, the irresistible music: when doubting Thomas (John Tams, also the musical director) is invited to bury his head in Jesus's wet wounds, the dramatic impact and elision to the next episode is managed in a beautiful song. As in the best musicals, you cannot argue with the deployment of music and speech. There is now a Herod play at the end of *The Nativity* in which, after the massacre, the carousing king at a long white table (ground level seated spectators are cleared away for both this and the Last Supper) and his courtiers are visited by the Angel of Death and the hooded scything figure of Time rolled into the one character by Pack Shepherd.

That episode is marvellous. Mak the Sheepstealer (James Carter) still gains his laughs with the substitute baby, but that play is also a comic parody of the manger scene, and the

Alastair Muir

Brian Glover as Caiphas in "The Passion"

production throughout makes generous, but never forced, purchase on these echoes. Artisan endeavour is not confined to the famous cricifixion ("More lifting and less lip" scowls one soldier). Abraham takes his son Isaac to be sacrificed in a grim slaughterhouse, and the risen Christ appears to his followers in a lovingly created fishing community—a marvellous song here among the cleaning of herrings and the mending of nets.

In addition to Messrs Glover and Shepherd, other stalwarts in a superbe company are Dave Hill, Trevor Ray, James Grant, Don Warrington and Edna Doré doubling as a brilliantly fussing Mrs Noah and a very moving deathbed Mary (in between Mary is shared by the lustrous Dinah Stabb and the enchanting Brenda Blethyn). I was also particularly struck this time by the work of Derek Newark and Stephen Petcher, and the blind man). They are joined now by Robert Stephens, lending histrionic weight to his bleary, bloated, bulldozing portrayals of Herod and Pontius Pilate.

The Miser/Royal Lyceum, Edinburgh

Michael Coveney

The Royal Lyceum in Edinburgh has been under the artistic direction of Ian Wooldridge for some months now, and to judge by this revival of Molière's *The Miser*—and by reports on previous classic works such as *Faustus* and *Woyzek*—the idea is to bring a touch of the Glasgow Citizens to Grindley Street. As at the Glasgow house, a final preview is now free to the public. But alas, unlike most Glasgow works, this *Miser* is a genuine fiasco of second-rate camp, ill-sorted design and misguided outrageousness.

Gregory Smith's fixed setting is of Harpagon's house as a pile of rubble inching its way into the auditorium. The windows are boarded up with cheap planks, an array of naked bulbs hangs from the badly-painted firmament. There is a tiresomely persistent imitation of Philip Prowse's design methods: stairs from stage to centre aisle for the getaway clash with Harpagon's cash box; big spangled poodle wigs that don't fit properly, an anachonistic Hoover for the party preparations and an intepreted company conga before the last act—to name byt two tricqs lifted from such Prowse shows as *Semi-Monde* and *The Last Days of Mankind*.

Nor is it remotely original to have a Scottish miser (whoever heard of such a thing, anyway?). The most recent on this very stage was the great Rikki Fulton's in the days of Bill Bryden's Scottish National Theatre adventure. Here we have tartaned-up (sic) costume parade, with kilts and ribbons everywhere, most pronounced in the mincing Cléante of Robin Sneller who, with his poodle walking stick and crimson and gree cloak and flyaway hat, resembles a nightmarish billboard for Princes Street tourist traps. The money-box probabily came from Jenners, too.

Tam Dean Burn as Harpagon curls up behind a palpably false nose and beard like a Shylock parody, projecting an over-literal and under-weighted reading. Like so much of Hugh Hodgart's production, Mr Burn is crushingly unfunny, substituting crabby gruffness for genuine delirious vice. Also, in a play which for all its obsession with love and money, is a brilliant multi-layered stage examination of the nature and workings of deceit the evening lacks resonance and tragi-comic dimension. Harpagon's great climatic attack on the audience and the world comes across merely as a whining bleat.

The scenic inventions seem to me more embarrassing than effective. Thus every time the scheming Frosine (Vari Sylvester, good and huskily voiced) comes on, a shower of rubber masonry falls from the sky to join the scattering of bricks which are strewn around the stage. The point is that Harpagon is too mean to even secure the roof over his own selfish head: when he calls for justice in the last act, the window planks fall from their sockets and the back door slams inwards (echoes of Prowse's great scenic coup in the Old Vic *Phedra)* to reveal Anselme, the glittering figure of dénouement. Finally, the four lovers paired off, Harpagon is left clutching his money while the walls collapse outwards.

None of this is conceived or executed with much flair or conviction.

The translation used is Alan Drury's 1978 version prepared for the Theatre Royal, York. It veers between the downright bad ("depths people are reduced to") and the occasionally felicitous ("I'm afraid my daughter's rather large for her size") but as a rendering of Molière's prose, it is not a patch on Donald Frame's to name but one.

The Lyceum should really be doing its own version and, for that matter, its own production. There is a long way to go on the road to recovery from the bland programming of the Leslie Lawton era, but a quasi-Citizen's policy may not be the correct answer.

Endymion Ensemble

Max Loppert

Friday's full and somewhat indigestable programme of Bach, Stravinsky, and Mahler at the Elizabeth Hall was well played bu anonymously interpreted by the Endymion Ensemble; then, at the end of it, came a performance by Felicity Palmer of Britten's *Phaedra* of a quality to make the whole concert worth sitting through. *Phaedra*, a small vocal cantata (from Racine in Robert Lowell's translation) into which a whole Britten opera seems to be concentrated, is perhaps the key work of the composer's last period — strikingly simple, daringly concise in structure, sonority, and thematic working, one of his most open, unfettered emotional expressions.

Miss Palmer's theatrical experience of such complex Classical heroines as Gluck's Armida and Mozart's Electra and Elvira paved the way excellently. The delivery of Brittan's seamless mesh of recitative and *arioso* was stamped by a natural incisivenes of line, by a passionate yet contained eloquence, of exactly the right kind, in the colouring of tone and words. She had not yet learned to equal the ringing boldness of Janet Baker or the sensuousness of Sarah Walker in the same "role"; a slight sense of caution was answered in the playing of the ensemble under John Whitfield; top notes were tight.

But it was a performance to arouse hopes for many others — though from now on Miss Palmer must be urged to pronounce proper names in English (i.e. Feedra, Medeea) rather than in Franco-Italian (i.e. Faydra, Medaya).

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

January 18–24

Music

ITALY

Milan: Teatro Alla Scala: (Mon) Alfred Brendel (piano), Haydn, Schubert, Mozart and Beethoven. (80.91.26)

Rome: Auditorio di Via della Conciliazione: Franco Mannino conducting his concerto for six violins, two pianos and orchestra, also Richard Strauss and Rossini. (Mon and Tue). (65.41.044)

Oratorio del Gonfalone: Vicolo della Scimia 1/B (Via Giulia) The Chilingirian Quartet. Beethoven (Thur). (655.952)

WEST GERMANY

Frankfurt, Alte Oper: The Chicago Symphony Orchestra, conducted by Sir Georg Solti with Shostakovich and Bruckner (Sun). A piano recital with Daniel Barenboim playing Beethoven (Thur).

Berlin, Philharmonie: The Berlin Philharmonic Orchestra, conducted by Zubin Mehta with Yehudi Menuhin offers Bela Bartok (Sun).

PARIS

Mara Zampieri, Recital. Ronald Schneider, piano (Mon) Théâtre de l'Athenée (742.67.27)

Ensemble Intercontemporain conducted by Ronald Zollman, Rosemary Hardy, soprano: Stravinsky, Varese, Boulez, Ravel (Mon). Théâtre de la Ville (274.22.77).

Regine Crespin, soprano, Kim Lee, soprano, Orchestre du Conservatoire de Paris. Mozart, Wolf, Duparc, Puccini, Bizet (6.30pm): Yvonne Minton, mezzo-soprano, Orchestre de l'Ile de France conducted by Jacques Mercier: Berlioz, Ravel (8.30pm). Both concerts Monday at the TMP-Châtelet (233.44.44)

Ensemble Orchestral de Paris with Jean-Pierre Wallez as conductor and soloist. Teresa Berganza, mezzo and Ensemble Vocal Michel Piquemal: Bach (Tue), Salle Pleyel (563.88.73)

Orchestre National de France conducted by Ivan Fischer: Kodaly, Stravinsky, Bartok (Wed). Théâtre des Champs-Elysées (723.47.77)

Orchestre de Paris conducted by Zubin Mehta, Barbara Hendricks, soprano, Philip Langridge, tenor, Robert Lloyd, bass, Orchestre de Paris choir conducted by Arthur Oldham: Haydn's Creation (Thur) Salle Pleyel (563.88.73)

LONDON

London Philharmonic Orchestra conducted by Maurice Kaplow with Enrique Perez de Guzman. Berlioz, Beethoven and Tchaikovsky. Barbican Hall (Mon). (638 8891)

Marius May, cello and Roger Vignoles, piano. Vivaldi, Bach, Schumann, Paganini and Chopin. Queen Elizabeth Hall (Mon). (928 3191).

Royal Philharmonic Orchestra conducted by Walter Weller with Cristina Ortiz, piano. Brahms. Royal Festival Hall (Tue). (928 3191).

The King's Singers. Queen Elizabeth Hall (Tue).

NETHERLANDS

Amsterdam, Concertgebouw. Louis Stotijn conducts the Netherlands Student Orchestra, with Theodore Geraets, violin. Van Keulen, Brahms, Mahler (Tue). Recital Hall: The Little Consort with Lucia Meeuwsen, mezzo-soprano. Vallet, Dieupart, Frescobaldi, Apsberger, Fontana, Monteverdi (Mon); The Caecilia Consort. Ligeti, W.F. Bon, Weiner, Stravinsky (Tue): Shostakovich Quartett with works by the composer (Wed); Theo Olof, violin, and Gérard van Blerk, piano. Messiaen, Debussy, Faure (Thur). (71 83 45)

Rotterdam, de Doelen. Rotterdam Philharmonic under James Conlon, with Francois-Rene Duchable, piano. Janacek, Liszt, Debussy, Stravinsky (Thur). Recital Hall: The Netherlands Saxophone Quartet, Bach (Mon). Spanish gipsy music in a Fiesta Gitana (Thur). (14 29 11)

WASHINGTON

National Symphony (Concert Hall): Mstislav Rostropovich conducting. Beethoven, Albert (Thur): Mstislav Rostropovich conducting, Jean Pierre Rampal, flute, Lucy Shelton, soprano. Handel, Bach, Vivaldi, Laderman (Thur). Kennedy Center (254 3776).

NEW YORK

New York Philharmonic (Avery Fisher): Klaus Tennstedt conducting, Lorne Munroe, cello. Strauss, Beethoven; Klaus Tennstedt conducting, Bella Davidovich piano. Beethoven Dvorak (Thur). Lincoln Center (874 2424).

Chamber Music Society of Lincoln Center (Alice Tully): Bach, Beethoven, Ravel, Schubert (Mon, Tue). Lincoln Center (362 1911).

Carnegie Hall Juilliard String Quartet. Walter Trampler viola. All-Mozart programme (Mon); Prague Symphony, Jiri Belohlavek conducting, Susan Dunn soprano, Michael Sylvester tenor, Ivan Kusnjer baritone. All Dvorak programme (Wed). (247 7459)

VIENNA

Maria Livia sao Marcos. Bach, Bogdanovic and Villa-Lobos. Bösendorfer Saal (Mon) (65 66 51).

Vienna Symphony Orchestra conducted by Hans Graf with Hermann Prey, baritone. Bach, Mozart and Bartok. Konzerthaus (Wed). (72 12 11)

Lieder sung by Lucia Popp with Irwin Gage, piano. Prokofiev, Dvorak and Wolf. Musikverein Brahms Saal (Thur). (65 81 90)

Gilles Geu, Johannes Skroupa, recorder, and Ritsu Kawashima, harpsichord, play early and high baroque sonatas. Urania (Thur).

TOKYO

Yumiko Ohta, piano: Bach, Beethoven, Chopin and Szymanowski. Iino Hall. (Mon). (461 2590)

Aki Takahashi, piano: Chopin. Bunka Kaikan Small Hall (Tue) (353 2242)

Japan Philharmonic Symphony Orchestra: Ken Takaseki, conductor; Tomoko Katoh, violin. Takashi Yoshimatsu, Beethoven, Stravinsky. Tokyo Bunka Kaikan (Thur). (234 5911).

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Monday January 21 1985

Extending the Vat net

THE DEBATE about the extension of value-added tax (VAT) has been curiously lame. Neither the Government nor its critics have shown much understanding of the arguments for and against this fiscal reform and the result is that the extension of *Vat on March 19 is likely to be* marginal.

Senior ministers have achieved a curious distinction: they have put forward both the wrong reasons for extending Vat and the wrong reasons for *not* extending it.

The traditional Conservative argument for switching from direct to indirect taxation, still being relayed by Treasury officials, is that it would enhance personal freedom: people could choose how much tax they paid in a way they cannot when tax is docked from pay packets.

The argument does not stand up: the total amount of tax the Chancellor has to raise is governed by the level of public spending—theta x burden cannot be reduced by swapping one tax for another.

The consumer choice argument also conflicts with one genuine reason for wanting to *extend Vat. This is to achieve* a greater degree of fiscal neutrality and reduce an unnecessary loss of economic efficiency.

I nterfere

Fiscal neutrality requires that taxes should not interfere with business or personal decisions: a value added tax which applies haphazardly to only about half of consumer spending is highly-distortionary since the production of some items but not others is encouraged. Yet steps to broaden Vat will obviously reduce an individual's ability to choose whether or not to pay taxes.

Fiscal neutrality is not the only reason for wanting to broaden Vat substantially. A comprehensive Vat would raise sufficient extra revenue to allow a significant reduction in income tax rates as well as increases in thresholds. It would also be a back-door route to some of the advantages of the direct expenditure tax proposed by the Meade Committee in 1978.

Putting forward the wrong reason fo rextending Vat is much less serious than putting forward the wrong reason for not extending it. There seems to be little prospect of a substantial extension of Vat mainly because ministers still believe that to tax food, shelter and fuel (which together would raise more than £6bn) would be "regressive," hurting the poor more than the rich.

The point missed is that what matters is the overall impact of the tax system on income distribution, not the effect of a single tax. The benefits of a uniform taxation of commodities could be had and the poor could still be protected by higher social benefits and higher income tax thresholds.

Gloomy

But until this point sinks in, the Vat debate will rest on the pros and cons of taxing a number of marginal items such as books, magazines and newspapers, and children's clothing, which might bring in a meagre £500m for the Chancellor.

The publishing industry is well placed to argue its corner. The Newspaper Society claims, on the basis of a report from Price aWterhouse, the accountants, that Vat could mean the loss of 7,000 jobs and 100 titles. An independent study of the effect of Vat on book publishing is as gloomy: it suggests prices might rise more than proportionately and lead to a big loss of sales.

There is little doubt that the imposition of Vat would cause some hardship in both book and newspaper publishing although perhaps not on the scale these studies suggest. This is not an argument for a permanent concession but might justify the phasing in of Vat. There is nothing to stop the *Chancellor introducing fiscal* change in stages as he did with corporation tax last year.

Special interest groups might also feel less aggrieved if the Government was seen to be actively investigating the possibility of imposing Vat on more service industries. Why, for example, are private health and education exempted?

There is also a strong case for imposing Vat on financial *services like banking* and insurance. The argument that value added cannot be measured in these industries is unpersuasive: value added is the sum of wages and profits and this is obtainable from company reports and accounts. The Government needs to show much more vigour and ingenuity in the quest to make Vat more comprehensive.

The Falklands constitution

MRS MARGARET THATCHER is perfectly entitled to her view that the wishes of the Falkland Islanders must be paramount in discussing their future. Yet in the row over the island's proposed new constitution she has unwisely sought to impose these views with little reference to parliament.

he row centres on both the proposed wording of the new constitution and the means by which the Government intends to have it approved. The constitution refers to the islanders' right to self-determination and, without specifically saying so, appears to confer a right of veto on any future change in their status. The document, approved last week by the Falklands' Legislative Council, will be made law, according to Mrs Thatcher, through an order in council. This procedure in principle avoids a parliamentary vote.

The constitution has yet to be made public, and if less secrecy had surrounded its elaboration, the Government might have had a better chance of putting its case. But sprung on an unsuspecting parliament, it has aroused strong feelings among all parties over what is seen as an attempt to bypass debate on a vital constitutional matter.

Questionable

The Government's case runs like this. A new constitution was under discussion before the 1982 conflict with Argentina and the present document is merely the confirmation of this process. The wording in the preamble on self-determination is vague and does not amount to a veto. As for the order in council, the present administration on the islands is conducted via an interim order in council issued in the wake of the conflict. Parliament is not barred from debating the matter or indeed from seeking amendments.

This is all very well; but the arguments look highly questionable. The UN Charter does not recognise the right of self-determination of dependent teorritories. To get round this, *the preamble has borrowed from* the little known 1966 UN International Convention on Civil and Political Rights which the UK only ratified in 1976. The convention is full of ringing phrases about political freedoms so abstract as to make the British Government doubtful of originally ratifying it.

Even if the self-determination phraseology falls short of veto powers, to go this far in grant*ing autonomy to the 1,800* inhabitants of the Falklands is a major departure from the status quo. Any act which commits, or is likely to commit, the UK to further obligations in the South Atlantic should not be hurried through by order in council. It implies disrespect towards parliament, which must be the ultimate arbiter on the Falklands, and to the British taxpayer, paying over £700m a year to defend the islands.

Irritate

The constitution contains two other interlinked issues which should be fully debated: the *future of* South Georgia and the South Sandwich Islands, and Britain's claimed Antarctic territory. The former islands will remain constitutionally independent but their effective administration will be linked to *that of the Falklands. The same* will apply to the Antarctic. The Falklanders will be given a say in the future of South Georgia and the South Sandwich Islands. This means that the Government is envisaging the entire British territory and presence as one whole, ending speculation that the Falklands might eventually be hived off to Argentina, while retaining a claim to Antarctica through South Georgia.

This policy represents an important hardening of Britain's position on the future of the Falklands and on its presence in the South Atlantic. Negotiations on the Falklands' future must sooner or later be held with Argentina; and no move should be made that would prejudice such negotiations. The present policy seems bound to irritate if not antagonise Britain's European allies whose support over the Falklands cannot be taken for granted indefinitely.

The new constitution needs to be fully debated, and it must *be made clear that the inhabi*tants of this small community should not bind the sovereign interests of Britain.

REAGAN'S INAUGURATION DAY

Challenges ahead for the 'chairman of the board'

By Reginald Dale, U.S. Editor in Washington

WITH the solemen renewal of his oath of office at the Capitol's west portica today, President Ronald Reagan officially launches himself into the "four more years" with which the American voters enthusiastically endowed him in November.

His still luxuriant brown hair may be beginning to show traces of gray, he is somewhat harder of hearing, and his 74th birthday is only a few days away. Yet to outward appearances he is still very much the same man who was first sworn in four years ago.

His fundamental beliefs and views of the world have not changed — indeed they have been much the same for a quarter of a century and more. To judge by the opinion polls, his popularity *remains* enormous and he starts his second term, as he did his first, with what he can claim to be a sweeping personal mandate.

Re-elected without having made any attempt to spell out a new programme for his second term, he left the nation with the widespread impression that his rallying cry of "four more years" essentially means more of the same. This time, however, he faces a very different political landscape from the one he did four years ago. He starts his second term without many of the most trusted White House advisers of his first—most of them personal friends—and he *will be dealing with a much less* amenable Congress.

With the election over, both major parties are entering a divisive period of what Sen Gary Hart calls "generational change," and the eyes of many of their best and brightest are already on the next Presidential elections in 1988 and the post-Reagan era. Like it or not, Mr Reagan will never face another election—a factor that in one sense gives him greater freedom of manoeuvre, in another limits his powers of persuasion. He must be constantly alert to the dangers of being written off as traditional lame duck before he has completed the "Reagan Revolution."

It already looks as if Mr Reagan's second post-electoral honeymoon, at least in the eyes of political Washington, is going to be markedly shorter than his first—if, indeed, he gets

His aim now is to consolidate his 'revolution'

one at all. Four years ago, when he triumphed over President Jimmy Carter, his victory was almost universally interpreted, even by many Democrats, as conferring him with a massive mandate for radical conservatism.

This time, no sooner was the ink dry on election returns that gave him a comprehensive victory over Mr Walter Mondale, than the Washington establishment began debating whether he really had won a new mandate at all. OK, the argument went, we had won an historic 49 out of the 50 states—that was to be more or less expected. But the Democrats did better than expected in the House of Representatives and won two seats in the Senate. *The voters liked* him as a person but wanted his policies restrained by Congress.

Since then, Mr Reagan has not moved swiftly to capitalise on his landslide. On the contrary, many people have accused him of wasting the two months' transition period between the election and the inauguration. Rightly or wrongly, he created the impression that he was in danger of losing the initiative before his second term had even officially begun. After lengthy deliberations of next year's budget last month, the White House tacitly admitted that it could not meet its deficit reduction targets and let the Republican leadership in the Senate take up the running instead.

Control over his own staff seemed to be slipping away when two of his most trusted tides, Mr Michael Deaver, his deputy Chief of Staff, and Mr William Clark, the Interior Secretary, resigned. Two others, *Mr Donald Regan, the Treasury* Secretary, and Mr James Baker, the Chief of Staff, arranged their own job swap without, it seemed, so much as a by-your-leave. The surprise news was allowed to upstage the Administration's biggest post-election coup so far, the Geneva agreement on a new round of arms talks with Moscow.

With today's inaugural address, and his State of the Union message on February 6, Mr Reagan will be back on centre stage. And, surprising though they may have been at first sight the staff changes may well turn out to his advantage. He would not have approved *the Regan-Baker switch if he* did not think it made sense. As he told an interviewer at the end of last week: "I'm still the boss."

Mr Reagan's first-term White House was rife with disputes between those *like Mr Clark,* whoe over-riding priority was loyalty to the Reagan agenda (the ideologues) and those like Mr Baker, who were prepared to compromise to get things done (the pragmatists). While Mr Baker usually prevailed, he had seemed to be wearying of the battle.

At the Treasury, Mr Baker, with his talents for diplomacy and cajolery, is probably better equipped than Mr Regan to tackle the Department's main political task of the second term—to coax fundamental tax reforms through Congress in the teeth of powerful opposition from the interest groups that will suffer the most. Although Mr Reagan has not yet made up his mind on the details, it is *increasingly clear that a major* tax reform is part of the legacy he would like to leave to history.

Less clear is the suitability of the abrasive, though sometimes witty Mr Regan for the delicate job of running the White House. Mr Regan himself clearly regards his move as a promotion. Looking at the Administration in corporate terms, he sees Mr Reagan as *Chairman of the Board* or Company President, the White House Chief of Staff as Chief Executive Officer and Cabinet members as mere Vice-Presidents.

That is a bit the way Mr Reagan sees *it himself. By stay*ing aloof from the day-to-day Cabinet infighting, he has not only managed to remain unscathed but has effectively, through delegation, increased the power of his Chief of Staff. In the last four years, power, particularly over the Budget, has been firmly centralised in the White House.

Mr Reagan has never believed, like Mr Carter, that his *job requires him to be involved* in all the minutiae of government. He does not believe that he should drag himself out of bed at 5.30 am or forgo vacations at his California ranch.

With the Baker-Deaver-Messe troika leaving the White House and Mr Clark soon to retire, Mr Regan will have a remarkably free hand to run things his own way. He gets on well with the President (the two men have a reputation for swapping salty jokes in private). Although Mr Regan has not publicly ruled out a mooted White House role for Mrs Jeane Kirkpatrick—whom the right-wingers would desperately like to keep near the seat of power as the other Conservatives depart—he is unlikely to welcome the competition.

Mr Regan's arrival at the White House, on the other hand, should be good news for Mr George Shultz, the State Secretary, in his constant jockeying *for position with his Pentagon* rival, Mr Caspar Weinberger. Mr Regan and Mr Shultz are personal friends and both recently sided against Mr Weinberger in his latest Cabinet battle to resist deep defence cuts.

But while some White House officials are hoping that Mr Regan will "close the White House back door" to Mr Weinberger, it is unlikely that the Defence Secretary will lose his influence with a President who sees eye to eye with him on so many issues, whether it be "star wars" strategy or the 1986 Defence Budget.

Even though Mr Reagan's support may be enough to win Mr Weinberger his battles in the cabinet, the same cannot be said for the warfare that lies ahead on Capitol Hill. There the climate has changed almost beyond recognition since the *heady days that followed* Mr Reagen's first inauguration, in the aftermath of his 1980 victory. Driven home by the Republicans' capture of the Senate for the first time since *1954,* Mr Reagan *swept his* initial tax, Budget and Defence programmes through Congress with dramatic elan.

Shell-shocked by their defeat, the Democrats conceded as much as they resisted, while the Republicans were united behind Mr Reagan. In the House, right-wing, mainly Southern Democrats (the "boll weevils") joined the Republican minority to give Mr Reagan an effective majority in both chambers.

While the House Republicans will try to restore that coalition, their numbers (eroded in the 1982 mid-term elections and only partially restored last November) may not be enough. The Democrats though not yet fully recovered, are making a more determined bid for unity. *They are not going to lie down* and be rolled over again.

Among the reduced Senate Republican majority, the influence of the moderates is on the rise and the newly elected majority leader, Sen Bob Dole *of Kansas, is not necessarily* going to let Mr Reagan have things all his own way. In both houses the Budget deficit has brought opposition to Mr Reagan to a head, even in Republican ranks, and defence spending is going to be the first target.

Mr Dole has already pointed out that, while Mr Reagan no longer needs to face re-election, the Congressional Republicans do. While willing to do what he can for Mr Reagan, his more pressing priority, when the chips are down, will be to secure the re-election of the Republican Senate majority (and himself) in the 1986 mid*term elections that are now* under two years away. Moreover, with the lead-time for Presidential candidacies now as much as four years, many *aspirants like Mr Dole and* Vice-President George Bush will be positioning themselves for 1988. If they think that means distancing themselves from Mr Reagan, they will do so.

The unresolved battle in the Republican Party between the conservatives like Representative Jack Kemp of New York, another presidential hopeful, and moderates like Mr Dole and his predecessor Sen Howard Baker of Tennessee, will be fought out with 1988 more in mind than Mr Reagan's place in history. For the same reasons, the Democrats will be looking to build credible alternative policies to those of Mr Reagan, rather than try to imitate him as they did four years ago.

But Mr Reagan is not without cards in his hand. He has always sought to use public opinion — often successfully — to override Congressional opposition, and there is no evidence that he has lost his formidable skills as the Great Communicator. His first formal post-election news conference this month showed him in crisp, rejuvenated form, in which he seemed markedly more relaxed now that his final electoral battle is over.

Whatever the Washington establishment may say, the latest New York Times CBS News opinion gave him a 65 per cent approval rating, the highest since the weeks immediately following his first inauguration. While public enthusiasm for some of his policies, and particularly his defence build-up, may have waned, he is still a dangerous politician to thwart.

He will not repeat his smashing Congressional victories of 1981. But his aim now is to consolidate his "revolution." He would like to leave office with the role of government still further reduced, *traditional* conservative values more firmly entrenched, the post-war cycle of recession and recovery abolished and the Republicans the majority party for the first time in half a century.

Most of all he wants to go down in history as a "peace president." He genuinely believes in the vision of a world in which nuclear weapons are rendered obsolete by his new "star wars" defensive technologies. While he still thinks Communism is evil, he sees the desirability of dealing with Moscow, which is far from sure, it can be done on more or *less his own terms.*

This time he faces a very different political landscape

Personally popular as he is, economic prosperity remains the basis of his political support. If the economy collapses, so will his approval ratings. As the recession years of his first term showed, what seems like his harmless absentmindedness in times of plenty can easily look like laziness and irresponsibility when times are hard.

His opponents will be watching for signs that his energies are failing—energies that he will need if he is to achieve his second term objectives. As the oldest President in U.S. history, he has stood up remarkably well to the stresses and strains of his first four years. But if he is not to resign himself, uncharacteristically, to lame duck status, the next four years are likely to be even harder.

No bill of exchange

Whatever happened to the Representation of the People Bill? The Bill, which proposes raising the election deposit and giving votes to holidaymakers and Britons resident abroad, got its second reading in the Commons six weeks ago. Normally the committee stage would have started a week or so later, but there is no sign of it yet.

The explanation lies in the relationship—or rather, lack of it—between Leon Brittan, Home Secretary, and Gerald Kaufman, his Labour "shadow."

This is not just a matter of the usual partisan exchanges and banter across the Commons' despatch box. They just do not *get on at all. There are,* for example, none of the friendly chats which most political opponents enjoy in private behind the Speaker's chair.

The snag is that co-operation between the two is needed if *the Bill is to make progress.* Its committee stage is being taken on the floor of the House—and that could take a long time since the Bill runs to quite a few pages and, in parts, is highly controversial.

By threatening to prolong discussions on the Bill, Opposition MPs might be able to upset the rest of the Government's legislative programme.

So the Government's business managers have so far refused to start the committee stage until an understanding is reached with the Opposition over the timetable. The party whips on both sides are leaving the matter to direct negotiations *between Britain and Kaufman.* There will probably have to be a compromise on the most contentious items, such as the amount of the election deposit. But at present, there is an impasse.

Foot-note

Former Labour leader, Michael Foot, returns from a week's *visit to India today with a mes*sage, perhaps, for Dr David Owen, the Social Democrats' leader.

Men and Matters

It concerns the Indian Government's plan, announced while Mr Foot was in Delhi, to introduce an anti-defection law, which is intended to stop Indian MPs switching parties without submitting themselves for re-election.

Mr Foot was moved by an Indian newpaper's enthusiastic support for this new "political morality, to muse at a Rotary International meeting in Delhi yesterday "whether you can make such a law retrospective and even internationally retrospective?" He added: "I must *present this to Dr David* Owen."

Renault driver?

Georges Besse, the burly, no*nonsense chairman of France's* Pechiney aluminium group, who this week may be nominated as the new head of the loss-making, nationalised car maker Renault, is not stranger to sensitive missions.

Besse, 57, first made his mark in the 1950s as one of the leading figures in France's efforts—keenly contested by the U.S.—to develop a uranium enrichment industry.

During the 1960s, while still in his 30s, he supervised construction of the military isotope-separation plant at Pierrelatte in the Rhone Valley, which provides highly-enriched uranium for French H-bombs and submarine propulsion reactors.

After a spell at the CIT Alcatel telephone group, he moved on to head the state-owned Cogema nuclear fuels company before joining Pechiney three years ago.

Like many of the pioneers of the French nuclear programme, Besse is a graduate of the elite, military-style Ecole Polytechnique engineering academy. *He makes no secret of his view* that political ideology has no part in the running of nationalised industries—a view which

"If you must know—I slipped on some ice at my place on the Costa del Sol"

the Socialist Government seems to share these days. If Besse's appointment is confirmed, nuclear men will have completed a takeover of France's *top two public sector posts.* Michel Pecqueur, former head of the Atomic Energy Commission and a long-time associate of Besse, was chosen to head the Elf Aquitaine oil group in 1983 after the Government dismissed its former boss, fiery Gaullist Albin Chalandon.

Futurist

Robert Goldberg was in London ahead of his election today as chairman of the board of directors of the Chicago Board of Trade, the world's leading futures market. He has *every reason to feel confident* about the outcome of the election as he is the only candidate standing. He will also be 43 today so there will be a double celebration.

Goldberg has been a player in the Chicago futures market since he started at 16 as a runner and later raised the necessary $8,500 to become a member.

He has his own firm now, Goldberg Brothers - Goldberg Securities.

Priorities for his new job are already set. "We want to continue to broaden our products base and internationalise further," he tells me.

That will include adding at least one foreign equity index this year. Top of the list is the FTSE-100 share index in the UK. Discussions are still in progress about how that should be traded.

Frog-march

Europe's gourmets, not the most stinting of species, are being urged to stop eating frog's legs—and help avoid an "-ecological catastrophe."

What started as a peculiar French delicacy, according to the World Wildlife Fund, has now grown into a big international business.

Britain may still have relatively little taste for the dish—many supermarkets have stopped selling tinned frogs' legs—but the WWF reckons that the legs of 200m frogs were eaten last year in Europe, the United States *and Australia.*

Satisfying this appetite is apparently causing serious ecological problems in India and Bangladesh.

Bangladesh, says the WWF, *now annually exports* the legs of 70m frogs which, if left to do their own thing, owuld consume more than 100 tonnes of insects, including mosquitoes, daily. This has led to an increase in malaria and a rise in the use of dangerous pesticides.

One inquiry last year estimated that India's exports of frogs legs earned £5.5m—but that the bill for imported pesticides was more than double that amount.

Observer

FOREIGN AFFAIRS: VE DAY

Let's be firm, but generous

By Ian Davidson

Forty years ago: celebrating the Allies' victory in central London in 1945

THE BRITISH Government's *flip-flop on whether to stage an* official commemoration of the 40th anniversary of the end of World War II, on May 8, casts an amusing light on the way decisions can slip through the meshes of the bureaucratic net. But it also focuses attention on the more serious embarrassments which this question may yet hold in store for a number of Western governments, in addition to that of the UK.

The bureaucratic sequence of events appears to have been roughly as follows. Commemorations of wars are deemed to be a military matter, and therefore in the domain of the Ministry of Defence. The Ministry considered the question of an official national celebration in 1985, and decided against the *idea, ostensibly on the grounds* that 25 and 50 years are recognised anniversary intervals, but not 40 years.

This view was communicated to Downing Street and to the Foreign Office. It is unclear whether it was seriously considered by the Prime Minister, the Foreign Secretary or the Defence Secretary, let alone discussed among them. But at least it was not rejected, so it became the Government view.

When the Foreign Office received a written query from an MP about a national VE Day celebration, the normal procedure would have been to pass the letter to the Defence Ministry. But since the letter also asked questions about the possible international aspects of a British celebration, the Foreign Office machine concluded that it could more conveniently draft the reply. Accordingly, Lady Young, Minister of State, wrote back that there would be no celebration by the UK, partly because it might be misconstrued as anti-German, partly because it might be abused by the Soviet Union for propaganda reasons.

After a stunned silence, mercifully lasting only a few days, it sank in that this was the wrong thing to say. So Mrs Thatcher reversed the position, by declaring that she felt Britain should celebrate the event, not just as an anniversary of military victory, but as marking 40 years of peace with freedom. It appears that a service in Westminster Abbey may be the preferred vehicle for this kind of commemoration, minimising unwanted political overtones.

The British Government's anxiety not to upset the West Germans is understandable and commendable. They live every day with the consequences of Hitler's war and Hitler's defeat, as exemplified by the division of their country. Some Germans may regard that defeat as a merciful release from tyranny. Others with equal justice may feel that yet more victory celebrations are uncalled for after 40 years, especially in view of the fact that, for 30 of them, Germany has been a respected friend and ally of its West European neighbours.

The Germans' *sensitivity* on this question of reconciliation became only too apparent at the time of the celebration of the 40th anniversary of the Normandy landings last year, when they made no secret of their irritation at being pointedly excluded from the event. It was left to President Mitterrand to soothe their ruffled feelings, by staging a symbolic Franco-German meeting of commemoration on the fields of Verdun.

In strict logic, it is hard to see what part the Germans could have claimed in the Overlord celebrations, or why they should have been particularly offended at shenanigans which were so obviously being hijacked by President Reagan as a display-piece for his re-election campaign. Yet offended they were, and thus implanted in the British official mind the very proper desire not to offend them again.

It is equally hard, however, to see why the British Government should have thought it could solve this problem with a bald decision not to hold a national VE Day celebration in 1985. Since his re-election, President Reagan may have lost interest in World War II anniversaries; but if it was reasonable to commemorate the Normandy landings in 1984, it must also be reasonable to commemorate the end of that war in 1985. At all events, the Overlord affair undoubtedly aroused expectations of a follow-up, and there must still be many people in Britain with *personal* or family reasons for wanting some appropriate national remembrance of a traumatic period of history.

If it had been decided to hold a service in Westminster Abbey in the first place, their feelings would have been suitably accommodated, without any risk of abrasive political rhetoric.

In any case, it was already clear that other countries would be staging national commemorations, whatever Britain did. Needless to say, the Russians have "very extensive plans for celebrations on a grand scale," in the words of an embassy official, just as they did 10 years ago, with parades in Moscow's Red Square as well as in other "hero" cities like Leningrad, Odessa and Volgograd. At the *other end of the scale,* the French Government is planning a ceremony on the theme of peace and reconciliation. Even in West Germany, some kind of official remembrance has now become inevitable, though there is passionate controversy over what form it should take, if any: a service in Cologne cathedral, an address to the Bundestag by President von Weizacker, a visit by Chancellor Kohl to a Nazi concentration camp, or an international meetin gof mayors from cities which suffered most in the war, such as Dresden, Kiev and Coventry.

What sets Britain apart in all this is that it was one of the few European countries not enslaved either by Hitler or Stalin. The Belgians can celebrate their liberation by British and American troops, as they did at the end of 1984, and the Dutch can celebrate the 40th anniversary of British and Canadian air-drops of food during the first week of May. But Britain's role in 1945 was that of a conqueror.

Part of the West's remembrance-dilemma is that it is almost impossible for political leaders to separate commemoration of World War II from its political connotations in a world which is today so radically different, and quite impossible to suppose that the Russians will do so. Their allegations of German "revanchism" have for some time past become as repetitive and tiresome as *they are groundless; it is easy* to imagine that they may use their vast victory celebrations to turn up the volume on this propaganda.

Since this dilemma is unavoidable, perhaps the West should stop dithering in anxiety and face the prospect with firmness — and with generosity. Generosity because, even if the Russians do bang their tin drum, they have a great deal to remember, more, no dobut, than anyone else. It is not, and never has been, politically fashionable in the West to remind people that the Soviet Union bore the heaviest brunt of the armed struggle against Hitler until the Normandy landings. If it is still legitimate for people in Britain to expect a public commemoration, it is 10 times as legitimate for people in Russia because they suffered 10 times as many dead as a proportion of the population. We cannot remember the horrors of the Eastern Front because we were not there; we did not suffer the fate of the 3m people of Leningrad, 1m of whom died in the 900-day siege.

On the other hand, the Russians are very poorly placed to raise the propaganda temperature too far by implicitly identifying the West Germany of today with the Nazi regime of Adolf Hitler. It is not possible to disentangle what responsibility, if any, the German people should bear for Nazism, and there is no point trying, but no one can deny the *evidence of 40 years of peaceful* democracy.

If there is an analogy with Hitler's Germany it is Stalin's Russia, with its repression, purges, concentration camps, mass murders and anti-semitism; and the change for better since 1953 has been modest at best. While Hitler was gearing up for his 1941 invasion, Stalin seized a large chunk of Eastern Europe and in the final victory added massively to the Soviet empire. Thirty-five years later, Moscow embarked on the annexation of Aghanistan.

In the Yalta agreements, the Russians made detailed promises for the introduction of pluralistic democracy in Eastern Europe, particularly in Poland; these promises were never carried out, nor seriously meant.

In short, there is no ground, *moral or political,* on which the Soviet Union can claim any kind of superiority over West Germany as it has been for the past 40 years; and Western governments should be prepared to point out this self-evident truth in public if the Russian propaganda machine should overstep the bounds of the tolerable.

The crucial difference between Hitler's Germany and Stalin's Russian is that Germany was defeated and is dismembered, while Russia is now a superpower. There has been no Nuremberg tribunal to lay out Stalin's crimes, or those of his successors.

But while no-one can prossibly take seriously the idea that the Russians are still afraid of the Germans, it is conceiv*able that the chief function* of their anti-German propaganda is d omestic, to explain and justify the chronic failure of the Soviet economic system. If so, it is also conceivable that, on the international stage, they may try to adopt a more subtle posture, if they know how.

East-West arms control talks are just starting again: the Russians are anxious, with good reason, to avoid the kind of arms race that could be precipitated by President Reagan's Star Wars programme; and they know that their tacit allies on this issue are, or may be, the peoples and governments of Western Europe. If they know their own interests, their objective should be to display a facade as sweetly reasonableas possible. Perhaps they do know their own interests. Perhaps.

Lombard

Time for some new targets

By Anatole Kaletsky

THE NOTICES of higher mortgage payments which we will all be receiving within the next week or two ought to include the following official disclaimer, preferably signed by the Chancellor:

"The money supply is back within its target range. There is no domestic reason for a rise in interest rates. I am not responsible. All further inquiries and complaints should be addressed to R. Reagon and Z. Yamani."

It might well be worth Saatchi and Saatchi's while to try it. For it is surprising how many gilt-edged investors, to say nothing of Conservative backbenchers, appear to be mesmerised by the logic of such a disclaimer: the money supply is within its target range; ergo the nation's monetary affairs are being soundly managed.

For a day or two earlier this month, the gilt-edged market really seemed to believe that the course of interest rates would depend largely on whether or not the growth rate of sterling M3 fell within its official ceiling of 10 per cent. When the money supply obediently declined — and interest rates shot up regardless — many wise heads in the City could only wonder how to reconcile the Government's obvious success in maintaining sound money with the evidence of sterling's apparent debasement which was flashing up on the foreign exchange screens hour by hour.

A popular explanation of this paradox is that over-excited gamblers and followers of chartist mumbo jumbo in the foreign exchange markets are simply unaware of the economic facts of life—that both inflation and exchange rates are basically monetary phenomena, which will be determined in the end by a country's rate of monetary growth.

There is, however, a simple and convincing reason why a government can meet all its domestic monetary targets and still face a collapsing exchange rate: the targets may be simply meaningless or wrong. Why, for example, is this year's ceiling for sterling M3 growth 10 per cent, rather than 11 per cent, 9 per cent or any other figure pulled out of the Chancellor's hat?

In the early days of the Government's Medium Term Financial Strategy, there was a sharp answer from the Treasury to any such inquiry. In itse 1980 Budget, the Government had set itself a series of targets for a steady decline in the growth of sterling M3. Resolute adherance to these targets was absolutely essential to the Government's economic credibility and its over-riding aim of defeating inflation.

Today, such bold pronouncements sound less impressive, since every single one of the targets in the original MTFS has been missed by a very wide margin (see table). After the MTFS was revised in 1982, the Bank of England admittedly managed to massage the M3 figures below their ceilings, in part through overfunding. But the essential point still stands: there has been no evidence whatsoever of a decisively downward trend in the growth of sterling M3 since the Government first took over in 1979.

For the actual performance of the economy this does not seem to matter in the least. To judge by the rapid decline of inflation since 1980, the Government's policies have been highly deflationary and the almost unchanging growth of sterling M3 has been simply a meaningless cipher. But to the credibility of economic policy, it matters intensely if the authorities pretend that they are aiming at a target which nobody can understand or believe in. If the Government is not prepared to tie its policies to something which makes economic sense—like the exchange rate, the growth of nominal GDP or even the rate of unemployment — it can hardly expect the markets to behave in a sensible manner. That is the most important message of the latest sterling crisis.

MONETARY GROWTH: TARGETS AND OUTCOMES
(sterling M3 per cent growth)

Targets set	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
March 1980	—	7-11	6-10	5-9	4-8	—
March 1982	—	—	—	8-12	7-11	6-10
Outturn	11.2	19.4	12.8	11.2	10.1	(10)

Letters to the Editor

Forward markets

From Mr P. Provost.

Sir,—I refer to Professor Pearce's thought provoking letter of January 16.

One point on his reference to the finance by banks of dollar assets against liabilities in other currencies. It would be unusual these days for international bank of standing to do this on an outright basis. Such operations would normally be covered by a compensating forward exchange deal. In theory, the whole should form a "matched transaction" without any effect on the net overall purchases and sales of any one currency in the foreign exchange markets, apart that is from the interest element.

Certainly where non-performing dollar loans are concerned, there may be a steady demand for the purchase by banks of dollars against their respective domestic currencies, so that interest can be paid to their dollar depositors which is not matched by receipts. Where interest is merely being paid in arrears, it is more likely that such dollars are borrowed, not purchased, so that the net exchange position is kept square.

A more interesting point is the assertion that Fed. reports show no over all increase in foreign holdings of U.S. bonds and equities; yet obviously more and more dollars are being purchased. Is it possible that these dollars are being held in the forward exchange contracts of the international banking system?

There has been an enormous increase in the size of the foreign exchange markets, both spot and forward, and in the number of players. The forward element is virtually unfuture markets, where long and bitter experience has shown the necesity of strict rules.

Unlike commodity futures markets, in the foreign exchange forward markets there si no clearing house, no regulatory committee, no rules regarding margins, no disclosure of turnover or of open positions. One could say that the forward foreign exchange markets enable operators to sell currencies they do not own (or to put it another way to borrow currency that does not exist) and buy currency assets that do not exist and live comfortably on the interest differential that does not regulated, unlike commodity exist. And if enough people do it, dollar appreciation to boot. And without putting up cash margin and in absolute secrecy.

Is the strength of the dollar and the weakness of the mark just a speculators hype?

As things stand the Iron Lady and her blase henchmen are no match for the predators of sterling.

As a substitute for the reintroduction of exchange control why not force all international banks to clear their forward exchange transactions through a commodity futures type clearing house with proper regulations, inspectors, disclosure and margins—at least the existence of large speculative positions would be more visible.

Peter E. Provost.
14, Ashleigh Drive,
Leigh-on-Sea,Essex

Taxman's hidden concessions

From Mr D. Tallon.

Sir,—Before too much can be made of the perceived discomfiture of the Inland Revenue (Back Page, January 16) over removal expenses, it seems appropriate to make two points.

Despite the present anti-taxpayer bias of the House of Lords, it is by no means certain that a well argued case for the allowance would not win in the courts. It is, after all, paid to reimburse costs incurred specifically at the employer's behest.

It must surely be contrary to public policy to discourage worker mobility. One of the issues of the miners' strike seems to be the refusal by the National Union of Mineworkers to contemplate the removal of jobs from old, uneconomic pits t nw ones.

The problem with Inland Revenue practices and concessions is too often that they are hidden from view: not that they are unnecessary or undesirable.

David S. Tallon.
(A co-editor of "Inland Revenue practices and concessions")
1, Serjeants Inn, EC4.

Using the airports

From Mr H. Crush

Sir, — Professor Korah's letter January 16 discussing slot allocation at Heathrow and Gatwick suggests that "smaller planes would prefer to land at less congested airports, such as Luton." Planes contain people who have their own preferences. While Luton has a number of qualities, access to the international scheduled rouse network and a speedy link to the business centres of London are not among them.

The regions do not have enough actual or potential air traffic to support many direct international services of their own and are utterly dependent on *their feeder routes* to the London hubs. At the moment there is a degree of equality in bargaining power in airport scheduling committees which results in those feeder services making relevant interline airlines (mainly foreign) buying all the best slots, through which to feed their own traffic. If the regional carriers could affairds any slots at all they would be at times of day which were useless for their passengers.

The public needs protection from the adverse economic effects of losing its air links with the outside world more than they need protection from night landings.

Harvey M. Crush.
38, Parkhurst Road,
Bexley, Kent.

Interest rates

From Mr N. Davie-Thornhill

Sir, — Is it not right to compare the present policy of increasing interest rates to defend the pound with that of doctors in the past who bled their patients in order to cure them?

In the longer term, high interest rates can only weaken our industrial base, which will in turn weaken the economy as a whole, and is not the weakness of the pound the result of continued monetary squeeze of the past five years?

N. B. B. Davie-Thornhill.
Hinderclay Hall, Nr. Diss,
Norfolk.

Share out the work

From Mr R. Newton

Sir,—Since my letter of January 10 has attracted a certain amount of criticism, I felt I should take this opportunity to justify my proposals.

I do not for one moment believe that individuals should "freewheel" through life: passengers have no place in any company which desires commercial success. What I do believe is that what work there is should be shared out — each person should work just as hard, but for less hours: I see no paradox in this, since over the last hundred years we have seen a similar degree of change:

A reduction in hours worked by manual labour from 10 to eight hours per day; a five- rather than six-day-week; longer vacations; and higher school leaving age (raised from 14 to 16).

These changes came about gradually, following the "Industrial Revolution"; since we are in the throes of a masssive technological advance — the "Information Revolution" — does it not seem logical for the process to be carried further. After all, the Industrial Revolution and its consequences have done us no harm . . . or have they?

Russell Newton.
Fitzwilliam College,
Cambridge

Redirecting the Treasury

From Mr A. Taylor

Sir,—The possiblity of a chief micro-economics advisor suggested by Michael Prowse (January 10) is an interesting and valuable proposition. For two long is appears that Governments in this country have a complete lack of understanding of the real competitive world faced by business. If it had, it would not have contemplated the unnecessary gyrations in sterling in 1979-81 and 1984-85 which have forced industry to do "U-turns" at least 3 times with all the havoc this causes to pricing and distribution.

But, I wonder if Mr Prowse went for enough. There are lessons to be obtained on how to go about understanding the microeconomic problems of industry, from another part of the public sector — the local authorities.

Increasingly, many firms look to local authorities to provide the expertise, assistance and advice which is not forthcoming from government. This help is not just limited to financial schemes (especially for small firms in the case of west Yorkhire), but also include for examyle, assistance to increase government awareness of issues and the need for policy changes. For example, the multi-fibre arrangement and the Silverston report and the effects of the "buses" White Paper on business costs of recruitment.

It is this lact of microeconomic understanding at Treasury lepel which is so worrying. The emergence of local ???? be— tween local industrialists and local authorities in certain areas is a reflection of the need for such constructive intervention which is currently lacking.

I can only see this process being reinforced in future if the Government's proposals to abolish the metropolitan counties receives the royal assent, as these authorities have taken the lead in their areas to raise many issues of concern to their local industry, with government departments.

Perhaps Mr Prowse ought also to argue for the retention of what little micro-economic policy exists at local level in the metropolitan counties, in addition to the ned for a chief microeconomic adviser.

Alex M. Taylor.
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Wakefield, Yorks.

FINANCIAL TIMES
Monday January 21 1985

Terry Byland on Wall Street

Turnover boost for brokers

IF ANY sector of the U.S. stock markets can be expected to benefit from the sudden increase in share trading over the past week, it must be the stocks of the brokerage houses themselves. This makes a good start to 1985 for the Wall Street trading firms, many of which would probably prefer to forget the previous twelve months.

The stock market has not been slow to salute the implications of the brighter tone. Since the turn of the year the leading brokerage issues have moved higher by as much as 6 per cent and 9 per cent, compared with a 2 per cent gain in the industrial stock market as a whole.

The question must be whether the improvement in brokerage stocks is a genuine omen for the new year, or merely an almost inevitable rally from depressed levels.

The results for fiscal 1984 to be reported within the next week by the major Wall Street houses can probably be dismissed without formality. An erratic stock market which ended the year with nothing to show, a credit market that defied the forecasters, reduced equity turnover, higher expenses and some unpleasant shocks from the corporate news department, all combined to depress brokerage profits in 1984.

With a few honourable exceptions, like Donaldson Lufkin Jenrette, soon to merge into Equitable Life, Jefferies, which makes its money in the third, or off-floor equity market, Quick & Reilley, the king of the discount brokers, and First Boston, there can be little joy to come.

Share earnings at some of the other major names could be down by more than 60 per cent. But this is history as far as Wall Street is concerned. Brokerage stocks fell by 13 per cent last year as the bad news rolled in, and some of the regional brokers, which rely on the retail trade, lost as much as one fifth of their stock price. Not very good going, in a stock market in which the Standard & Poor's 400 index showed little change on the year.

The brokers themselves have mixed views on the outlook for their own industry. Ms Brenda Davis, at Mabon Nugent, and Mr Rodney Schwartz and Ms Amy Lashinsky at Paine Webber, agree that stock market business will increase this year. But they are lukewarm in their assessment of the implications for the brokerage houses.

Both stress the changes wrought in the industry over the past decade, during which commission earnings have taken a reduced role in brokerage earnings. Over the past six years commission earnings have grown by a compounded rate of only 14 per cent, against 19 per cent for total revenues.

This year, predicts Paine Webber, earnings by brokers acting as principals will provide 36 per cent of industry revenues, with commissions bringing only 32 per cent. Investment banking will bring in 15 per cent, and "other operations," including property, a further 14 per cent. Nor are commission earnings all they seem.

Mabon points out that a drop of 17.8 per cent in retail volume on the NYSE last year was not balanced out by a similar rise in institutional volume because the institutions pay only about one quarter of the commission handed over by the retail or private investor.

Mabon Nugent doubts that 1985 will be a year in which brokerage profits or stock prices will take off into the stratosphere. Such profits gains as there may be will depend heavily on the market share of individual firms and of their ability to curb expenses.

Paine Webber sees Merrill Lynch achieving a major turnround in 1985, as it benefits from its willingness to take an axe to its costs in 1984. By the third quarter of last year, Merrill's expenses were only 0.50 per cent up on the previous quarter, compared with a 3.9 per cent rise for the industry as a whole. Merrill is also shaping up towards a substantial recovery in its investment banking profits.

Similar factors will, believes Paine Webber, bring higher earnings at Shearson Lehman/American Express and at E F Hutton. Its prediction that Shearson/Amex will earn $100m in 1984 and $170m in 1985 represents an optimistic view of the absorption of Lehman Bros into Shearson, and also of the turnround at the Fireman's Fund insurance subsidiary.

Also strongly-rated is Salomon Bros, although predictions for this group are bedevilled by the absence of details from the Phibro-Salomon subsidiary. The firm's strong suit has been its innovatory skills, notably in the creation of the mortgage-backed securities market which continues to bring in around half of total net earnings.

U.S. stock prices, Pages 20, 21, 23

MITTERRAND PROMISES STRENGTHENED MILITARY PRESENCE

French pledge on New Caledonia

BY DAVID MARSH IN PARIS

PRESIDENT FRANCOIS Mitterrand last night announced a possible strengthening of France's military base at its troubled South Pacific island territory of New Caledonia and declared that France would maintain its "role and strategic presence" in the area.

In a televised statement designed to show he was mixing readiness for dialogue with firmness over the future of the archipelago, M Mitterrand also said the National Assembly would be recalled in the next few days to extend the state of emergency declared in the territory last weekend.

M Mitterrand was speaking following his return to Paris yesterday morning from a whistlestop visit to the islands on Saturday.

He declared that the object of the visit was to show that dialogue over New Caledonia could continue in spite of recent unrest and the rejection by loyalist French settlers of a government-sponsored plan for modified independence from France.

M Mitterrand during his day-long visit, met local political leaders and civil servants and quickly toured some outposts in the bush. He did not however come directly into confrontation with an estimated 30,000 anti-independence islanders who held a tricolour-waving rally in the capital, Noumea, to demonstrate their desire to remain French.

Conscious of the domestic political risks that he is running over the handling of the affair, M Mitterrand stressed last night the importance of maintaining security on the islands and praised police for their efforts

The state of emergency was pronounced last Saturday night. This was after riots and violence followed the murder of a young white settler and the killing of M Eloi Machore, one of the more moderate of the native Melanesian separatist leaders, by members of France's crack anti-terrorist squad.

The recall of parliament over New Caledonia is required by law, which lays down that a state of emergency running for more than 12 days has to be voted by deputies.

M Mitterrand, who does not rule out another visit to the islands if the need arises, said that measures were being taken to resume economic activity on the territory, including the imminent reopening of the Thio nickel mine.

Background, Page 3

Dunlop chiefs drop share plan and prepare to fight BTR bid

BY CHARLES BATCHELOR IN LONDON

SIR Michael Edwardes and his two fellow executive directors of Dunlop Holdings, the debt-laden tyre and rubber group, have temporarily jettisoned a controversial share option scheme as they prepare to fight off a £33m ($37m) takeover bid from BTR, the UK conglomerate.

The share options, which form part of the £142m refinancing package agreed for the group last week, aroused strong criticism even before BTR announced its surprise bid on Friday.

The three Dunlop directors would have received options on a total of 47.2m shares – 5 per cent of Dunlop's enlarged equity if the refinancing package is approved by shareholders on February 8. At Friday's closing price of 36p the three men had made a notional profit, after taking into account the proposed 15 for seven rights issue, of £3.3m.

In a formal statement issued over the weekend, Dunlop said: "In view of the current share price level, Sir Michael Edwardes, Robin Biggam (finance director) and Roger Holmes (planning director) think it proper to release the banks from their obligations concerning options agreements until such a time as the present uncertainty has been resolved.

The Dunlop board's decision to shelve the share option plan may go some way to meeting objections from the company's shareholders association, which represents the owners of nearly 8 per cent of Dunlop's shares. The association has been pressing for existing small shareholders to be given share options on favourable terms. It also wants more of the shares due to go to Dunlop's banks to be offered to existing shareholders.

Prof Robert Pritchard, spokesman for the association, is due to meet the company's board again tomorrow for further talks. The association has rejected the BTR offer and said it will back the Dunlop board if changes are made to the refinancing package.

BTR has bought a critical 28 per cent holding in Dunlop's preference shares and could block the refinancing package.

BTR's share offer is worth 23p per Dunlop share with a cash alternative worth 20p. Dunlop will send a letter to shareholders urging rejection of the BTR bid early this week.

UK mining union hopes for new talks

By John Lloyd in London

LEADERS of Britain's National Union of Mineworkers (NUM) believe that there are good prospects for informal "talks about talks" with the National Coal Board (NCB) either this week or next.

These talks would centre on the likely agenda for negotiations to try to settle the 10-month pit strike and would explore the possible concessions which either side could make.

The two sides have not met for 2½ months. The likelihood now of an informal meeting between their senior officials indicates the pressures on both parties – but especially on the NUM.

Union leaders stressed last night that they wanted talks without preconditions or qualifications.

The board and the Government hope that the NUM's national executive, at its next meeting on Thursday, will give some indication that it might alter its stance.

Although Mr Arthur Scargill, president of the NUM, said yesterday he was prepared to meet the board at any time without preconditions, he again insisted that the industry should not close pits "on economic considerations."

NUM leaders are to meet with union leaders in South Derbyshire and Leicestershire, in the English Midlands, later this week in an attempt to limit the growing split in the union. Both areas are now expected to ballot their members on whether or not to stay in the NUM.

Mr Neil Kinnock, leader of the UK Labour Party, yesterday renewed his demand that rebellious left-wingers in the party should put the miners first. He insisted that their "antics" in the House of Commons on Thursday, when there was a demonstration by 16 MPs demanding a debate on the coal dispute, was self-indulgent and had done the miners more harm than good.

UK rail strike threat, Page 7

France unveils proposals for introduction of franc CDs

BY DAVID MARSH IN PARIS

THE French Finance Ministry has put forward proposals designed to ensure smooth introduction of franc-denominated certificates of deposit (CDs), the new form of banking fund-raising instrument announced last month.

The ministry hopes banks will start issuing CDs – designed as a further step in the progressive modernisation of the French financial markets – as soon as possible after the end of a discussion period with banks. This period is planned to run until mid-February.

Treasury officials, after consultations with the Bank of France and commercial bankers, have drawn up a discussion document containing the main guidelines for the new issues.

Officials hope the gradual consultative approach will allay fears that introduction of CDs will draw significant amounts of investment funds from the mainstream bond market.

After the surprise announcement last month by M Pierre Beregovoy, the Finance Minister, that banks would be allowed to issue CDs in the new year, the bond market suffered one of its largest one-day falls after heavy selling across the board.

Basing their views on the size of the CD market in domestic currencies in Britain and Japan, officials say they believe the volume of issues of French franc CDs is not likely to exceed about FFr 40bn ($4.1bn), even when the market reaches "cruising speed" in a few years time.

French company treasurers, presiding over high levels of liquidity because of better profits and sluggish capital investment, have been investing large amounts in the bond market, especially through short-term mutual funds.

Fears that these placements could be diverted suddenly to CDs were behind last month's sharp price reaction.

According to the Treasury's initial proposals the CDs will be issued in minimum amounts of FFr 10m and with maturities between six months and two years. This should discourage a speculative market with large numbers of small participants.

Officials point out that the envisaged CD market is relatively small compared with the FFr 150bn outstanding volume of short-term unit trusts and mutual funds, of which just under half is thought to be held by company treasurers.

In addition, officials believe CDs will not encourage large scale switches from mutual funds invested in the bond market. This is because the former will be lower-yielding and, being of shorter maturity, will reduce the opportunities for speculative profits during the present period of gradual interest rates cuts.

International capital markets, Pages 13, 16

Fed action may unsettle money market

Continued from Page 1

which the British government has a high stake, for after last week's sterling crisis the pound has been steadier but not strong.

The UK government has made no secret of its desire to prevent the pound slipping further, and would almost certainly push interest rates even higher if the currency showed any serious symptoms of vertigo.

It is extremely anxious, however, to avoid another rise in interest rates, which might badly damage investment and employment prospects.

The British Government is pinning its hopes, therefore, on the moral effect of Thursday's agreement, and the idea that the threast of intervention by the Fed could close off a one-way street for speculators.

Chairman of troubled Spanish bank resigns

BY TOM BURNS IN MADRID

THE TROUBLES of Banco Hispano Americano (BAH), Spain's third largest bank, have taken a new turn with the resignation at the weekend of Sr Alejandro Albert, the bank's chairman, on grounds of ill health.

Under Sr Albert Hispano, Americano took the decision last month to pass the 1984 dividends and as chairman he was involved in negotiating new aid for the ailing group from the Bank of Spain.

The BAH board is to meet this week to choose a successor to Sr Albert

The principal characteristics sought for the new chairman are that he should have had no association with the past and present difficulties of the bank and that he should receive at least the implicit endorsement of the Bank of Spain.

The resignation of Sr Albert, who is 49 and was appointed chairman of BAH in 1982, comes as a blow to those who saw him as the most innovative and dynamic among the presidents of Spain's big seven banks, as well as the most acquainted with foreign banking practices.

Last month Sr Albert announced that BAH would devote its entire 1984 trading profit of around Pta 25bn ($147m) to shore up its subsidiary Banco Urquijo-Union.

This was the first time a major Spanish bank passed a dividend and the decision led to the current talks on direct and indirect aid of some Pta 40bn from the Bank of Spain.

The short list for Sr Albert's post has, according to Madrid banking sources, been narrowed to Sr Jose Vilarasau, chief executive of the major Catalan savings bank, La Caixa, and Sr Claudio Boada, head of the state energy holding company Instituto Nacional de Hidrocarburos.

Ford takes European sales lead

Continued from Page 1

a "Ford of Europe" structure to coordinate its efforts as long ago as 1967.

Fiat, in contrast, nearly won because of its dominance of the Italian market, where it accounted for 54.3 per cent of total car sales last year.

The rapid advance of General Motors, the Opel-Vauxhall group, which jumped from 9.6 per cent of European sales in 1982 to 11.2 per cent in 1983 following the launch of its first small car, the Opel Corsa (Vauxhall Nova), came to a halt last year because the company was directly affected by the engineering strike in West Germany.

Japanese car sales in West Europe eased back last year, by 2 per cent to 103m, but there was still a market share improvement from 10.1 per cent to 10.2 per cent.

WEST EUROPE CAR SALES

Total Market	1983	1984
	10.49m	10.17m
	Market Shares %	
Ford	12.5	12.8
Fiat	12.0	12.7
Volkswagen/Audi	11.8	12.1
Peugeot-Citroën/Talbot	11.8	11.5
General Motors (Opel-Vauxhall)	11.2	11.1
Renault	12.6	11.0
Austin Rover	4.0	3.9
Mercedes	3.2	3.2
BMW	2.9	3.0
Volvo	2.2	2.3
Nissan	2.8	2.3
Toyota	2.2	2.8
Alfa Romeo	1.7	1.8
Seat	1.3	1.5

Source: Industry data

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	9	48	Dubrovnik	C	8	46	Malaga	–	–	–	Salzburg	Fg	1	34
Akrotiri	F	17	63	Faro	C	16	61	Malta	F	14	57	Seoul	–	–	–
Algiers	F	20	68	Florence	F	8	46	Manila	S	30	86	Singapore	S	31	88
Amsterdam	Fg	-7	19	Frankfurt	Sn	-1	30	Miami	S	21	70	Stockholm	Sn	-6	21
Athens	S	15	59	Funchal	C	17	63	Milan	C	2	36	Strasbourg	C	0	32
Bahrain	S	21	70	Geneva	C	1	34	Moscow	Sn	-13	9	Sydney	S	22	72
Bangkok	S	33	91	Gibraltar	F	17	63	Munich	Fg	-1	30	Taipei	–	–	–
Barcelona	–	–	–	Guernsey	C	4	39	Nairobi	–	–	–	Tangier	C	16	61
Beirut	S	18	64	Helsinki	Sn	-18	0	Naples	R	10	50	Tehran	–	–	–
Belgrade	S	-3	27	H. Kong	F	19	66	New Delhi	S	19	66	Tel Aviv	S	20	68
Berlin	S	-2	28	Innsbruck	F	3	37	New York	C	2	36	Tenerife	–	–	–
Biarritz	F	12	54	Inverness	–	–	–	Nice	S	11	52	Tokyo	S	11	52
Blackpool	C	1	34	Istanbul	C	6	43	Oporto	C	14	57	Toronto	Sn	-5	23
Bordeaux	F	11	52	Jersey	C	3	37	Oslo	Sn	-7	19	Tunis	–	–	–
Brussels	C	-3	27	Jo'burg	F	23	73	Paris	C	1	34	Valencia	–	–	–
Budapest	S	-5	23	Las Palmas	S	20	68	Prague	Fg	-8	18	Venice	F	0	32
B. Aires	S	33	91	Lima	S	26	79	Reykjavik	S	-6	21	Vienna	C	-7	19
Cairo	S	19	66	Lisbon	R	16	61	Rio de J'o	C	23	73	Warsaw	S	-7	19
Cape Town	S	31	88	Locarno	C	0	32	Rome	R	11	52	Zurich	C	1	34
Caracas	C	26	79	London	C	2	36								
Casablanca	–	–	–	Los Angeles	S	14	57								
Copenhagen	C	-4	25	Luxembourg	Fg	-3	27								
Corfu	R	14	57	Madrid	C	6	43								
Dublin	R	5	41	Majorca	–	–	–								

Readings at mid-day yesterday:

C–Cloudy D–Drizzle F–Fair Fg–Fog R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

Paris to act over crisis at Renault

Continued from Page 1

M Hanon, who is 53, took over at the head of Renault in 1981 from M Pierre Dreyfus, the first Industry Ministry appointed by President Mitterrand.

M Hanon is expected to make his case to the Government today and some industry sources suggest that he could still win a reprieve from M Fabius. But the brutal manner in which the issue of his replacement was leaked out at the weekend suggests that M Hanon is being made to pay the political price of Renault's heavy losses at a time when the run up for the 1986 parliamentary election campaign has begun.

THE LEX COLUMN

Weighing up the pensions risk

Probably not even the Chancellor knows for certain whether his budget will curtail the tax privilegs of pensiones funds. The question is still likely to be too firmly entangled with a dozen other possibilities for fiscal reform – and with alternative methods of getting the overall arithmetic to work.

Given the speculative pressure on sterling, however, the available room for actual fiscal relaxation has all too evidently not expanded as fast as back-bench demands for action to stimulate employment. The odds are mounting in favour of higher income-tax thresholds having to be financed in part from fiscal contraction elsewhere.

Following last year's principle of unwinding fiscal distortions, the pension funds have for months been seen as the most tempting of targets. Indeed, a recent parliamentary answer suggests that the total tax privileges of the pension system add up to roughly £8.5bn – even this year not all that far short of the entire PSBR. Of course, this crude sum overstates the fiscal opportunity cost of the present pensions regime, if only because the industry would undoubtedly find ways round any alternative arrangement. But the case for having a go at pensions is is not essentially different from that for removing life assurance premium relief, a privilege which bit the dust last year.

The game has to be worth the candle. There would be little point in risking the political unpopularity of radical reform for much less than £1bn in the first full year. At the same time, the method of raking in such a sum must leave the pension fund industry in a reasonable state of health. These limiting factors are enough to throw out some of the measures that have been canvassed.

Taxing pension contributions is a notoriously thorny path. For example: to tax company contributions might simply encourage the switch to unfunded pay-as-you-go schemes. Taxing employee contributions would conflict with the budget's presumed aim of reducing the tax cost of having a job.

On grounds of sheer fiscal neutrality, the tax-exemption on lump sum payments (commuted pensions) is a prime candidate for removal, since this exemption is unique in not only sheltering the contributions and investment income, but also later averting income-tax that would have been payable on an actual pension. The first-year revenue brought in would be disappointingly small – given the commitment to avoid retrospective change.

So the likeliest place for the Chancellor to strike must be the funds' investment income – where the shelter has become far more valuable as nominal and real rates of interest have risen in the last few years. Even here – where the Government is said to have foregone income tax of £2.5bn – there is not too much room for error. If the rate of tax were a nominal 5 per cent, the revenue raised might not be worth the criticism. Yet at the standard 30 per cent rate of tax, many, if not most, funds would find that their residual income represented an inadequate real rate of return, obliterating the financial arguments for funding pensions in advance.

Somewhere in between it might yet be possible to strike an acceptable balance between fairness of taxation and preservation of the pension fund industry, at the same time bringing in a worthwhile quantity of revenue. A tax rate of 10 per cent might raise nearly £1bn, yet remain within the bounds of political acceptability.

If the fiscal equalisers in the Treasury do turn their attention to pensions, they may find that neutrality arguments cut across each other. Interested parties argue that to tax the funds' investment income at the standard rate might even treble employee contributions, just to hold current benefit levels. But if companies were to pick up the tab it would be equivalent to the imposition of a poll-tax.

Perversely, the abatement of one distortion, between personal and institutional saving, might increase the marginal preference for fixed capital versus employment – a chronic defect of the UK fiscal structure which Mr Lawson's first budget set out to remedy.

Composite insurance

The year 1984 is now mercifully over for U.S. property/casualty insurers and for those U.K. composites – Commercial Union, General Accident and Royal – who enjoy (or suffer) substantial exposure to U.S. business.

It is no surprise that A. M. Best, the statisticians, and the U.S. insurers themselves believe the industry has made a pre-tax loss of over $3.5bn, given that it was probably operating at a ratio of claims and expenses to premium income of 118, or as high as 140 for some commercial lines, and since the industry may still be some 10 per cent under-reserved, the fourth quarter results from the U.S. in February will no doubt include some nasty adjustments.

U.S. insurers have been muttering about the worst year for property/casualty since San Francisco fell down in 1906, thereby raising the underwriting cycle (and even obdurate stock market indices) to the status of Acts of God.

For the U.K. composites, the effect of the 25 per cent depreciation of sterling against the dollar has been neutral to agonising. The currency movement has helped to rate U.K. brokers, who have low dollar expenses, but it has merely inflated Commercial Union's U.S. pre-tax loss into an even more eye-catching sterling figure.

Whether the underwriting cycle is iron or elastic, U.S. fund managers clearly believe that 1984 really was the low point, a sort of more unpleasant version of 1975. Since midsummer, and despite ghastly quarterly results, the bulk of the chief property/casualty stocks have outperformed Wall Street – in the case of Continental, by 32 per cent over the S & P Composite Index in the 12 months.

In the last quarter, only one of 15 stocks studied by Wood Mackenzie in its latest insurance market review badly underperformed the index and that was Geico, possibly because it has less to gain from a recovery in commercial lines.

What has raised the stockbrokers' eyebrow is the dreary share performance of the UK composites active in the U.S. Of the three, only Royal did better than the FT 500 in 1984, and then by only 4 per cent. Since then Commercial Union has risen faster than the rising market, but its share price at 203p may include a speculative element about its takeover or even further withdrawal from the U.S. market.

The lack of interest is despite some quite heavy hints from the companies at the interim stage that premium rates were hardening and setting in commercial lines. Yet since operating ratios are unlikely to improve by more than a couple of points in the U.S. this year, the UK market will probably need a bit more convincing that a classic cyclical upturn is under way.

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SECTION III

FINANCIAL TIMES SURVEY

The Dutch have chosen collective social security over extraordinary economic growth. Unemployment remains at one of the highest rates in Europe but there is increased confidence that the country is on the right track with a chance to relax the austerity measures of recent years.

Growing room for optimism

By LAURA RAUN

Rotterdam, Europe's largest port (left), and members of the 3 50-year-old Guild of Cheese Carriers in action at the weekly market in Alkmaar (right). Milk and dairy products dominate Dutch agriculture

THE PHASE of penitence that followed the social and economic profligacy of Dutch governments in the 1960s and 1970s is not yet over. However, confession having being made and reforms undertaken, the present, centre-right Cabinet of Mr Ruud Lubbers is now adopting a more positive approach.

Ministers, supported by business leaders and the banks now believe that the Netherlands is getting public spending policy under control and removing disincentives from industry. Thus, they feel confident about a slight easing of the pressure they have been applying to the system since 1982. Expenditure cuts will continue, but at a reduced rate, and more attention is already being given to unemployment.

The fact that there is a general election in the offing next year, with the opposition Labour Party riding high in the polls, may cause the Government to slacken its grip just a little further in the 12 months ahead. Like Mrs Margaret Thatcher in the UK, Mr Lubbers feels that a second term is essential if his policies are to take full effect.

When the Christian Democrat and Liberal parties took office 28 months ago, they had two clearly-defined goals: a reduction in the high level of government and local authority spending and the revitalisation of private sector industry.

Unemployment, then running at a rate of 12.8 per cent of the labour force, was recognised as a worsening problem, but tackling it, other than by work-redistribution, was not considered the first priority.

This attitude persisted for 18 months or so, as ministers warmed to their task of cutting away the dead wood and exposing fertile ground. Only in the summer of last year, with unemployment up to 17.8 per cent, did it come home that something had to be done.

The fact that most Dutch companies were again making substantial profits—partly as a result of a pick-up in the world economy, partly as a result of government incentives—meant that job-creation was likely to come easier anyway in the Government's mid-term. What the Government decided was needed, though, to build on this phenomenon, was an actual strategy for jobs, and this evolved quite smoothly with help from the trade unions.

Union leaders in the Netherlands are convinced there can never again be employment for all based on the old eight-hour day, five-day week. The Labour Party opposition agrees. All the Government had to do was to pick up on this idea and gentle it along, so that work-sharing and short-time working are becoming a common feature of Dutch industrial life.

The strategy is a slow-burning one: unemployment is falling only slowly and is still 17 per cent. Even so, the Government, the Opposition and the unions each feel that they have played their part in a *structural* re-organisation of the system. Now, such measures as youth opportunity schemes and community projects are being added to the mixture, while market driven industrial regeneration remains as the base.

The Government argues that it has made significant progress on the other issues of expenditure and industry. Labour carps that the rich are benefiting much more than what passes in Holland for the poor. The Central Bank, under Mr Wim Duisenberg, has been known to join in and predict a continuing of the economic malaise. The Organisation for Economic Co-operation and Development remains worried as much by sluggish Dutch growth as by the length of the jobless queue.

Yet, outsiders would be hard-pushed not to agree that the Netherlands remains a prosperous, stable country, with very low inflation (currently around 3 per cent) and a sophisticated social welfare system.

For their own part, the Dutch find it difficult to relate their own relative economic decline to the decline experienced by their neighbours. They imagine in many cases that they are suffering unduly from the recession and fail to see that the Netherlands remains an island of prosperity and solidity in a choppy sea of change.

The elaborate system of benefits to the unemployed, the sick and the disabled is still in place, even if scaled down to the point at which more of its cost can be met from current income. Indeed, part of the problem still facing the country is that the Government, having set its face against waste and high-rolling, is now beginning to relax. Perhaps, in a society whose high expectations have been met successfully for 25 years, it is difficult to present austerity as more than a temporary expedient.

Because, in the main, of the extent of the welfare system, government and local authority spending accounts for nearly 70 per cent of gross domestic product (GDP). This is the second-highest such figure in the whole of the OECD area.

Control of public sector borrowing — raised entirely through the Amsterdam capital markets—has been one of the coalition's main targets since 1982. Mr Onno Ruding, the Finance Minister, is determined to get it down to just 7.4 per cent of net national income by 1986, but will have to step up restraint, not relax it, if he is to reach his goal. The figure for 1984 looks like working out around 10.5 per cent, and the most recent forecasts for the current year is 9.7 per cent.

Accumulated national debt is worse. It is now equivalent to 55 per cent of net national income, and Finance Ministry officials forecast that, unless the budget deficit is reduced, it could touch 101 per cent by 1993. Borrowing in such a case would be required as much to repay interest as capital, and clearly Mr Ruding will hope to keep such a horror well at bay.

The minister will certainly draw comfort from the fact that this Cabinet is the first since the war to reverse the trend towards an increased public debt. Public sector spending is down, public sector wages are down and private sector wages rising only slightly. On the industrial front, company taxation has been reduced from 48 per cent to 43 per cent (though the promised second cut, to 40 per cent, is already overdue), and employers' welfare premiums have been reduced.

Personal taxation remains extremely high — taking up as much as 50 per cent of a mid-range earner's gross income—and welfare payments are but fractionally reduced. So the balance is in Mr Ruding's favour, and some more scalpel-work is promised even in the run-up to the election.

Mr Joop den Uyl, the Labour leader, has not been slow to point out that, as in Britain, there is a dangerous gap opening between those with jobs — usually well-paid — and those existing on a level of security that corresponds roughly to the national minimum wage. With the number out of work around the 800,000-mark, the proportion of have-nots has increased, and it is here that the danger lies in respect of social cohesion.

Recently, Mr Lubbers rejected claims by Labour that social security benefits in the Netherlands were too low, although he has warned in the past that minimum payments should not climb further. The Government has fought hard against leftists parties and Labour unions just to trim social security payments a modest 3 per cent over the past two years.

The minimum government assistance amounted last year to Fl 1,522 ($430) a month,

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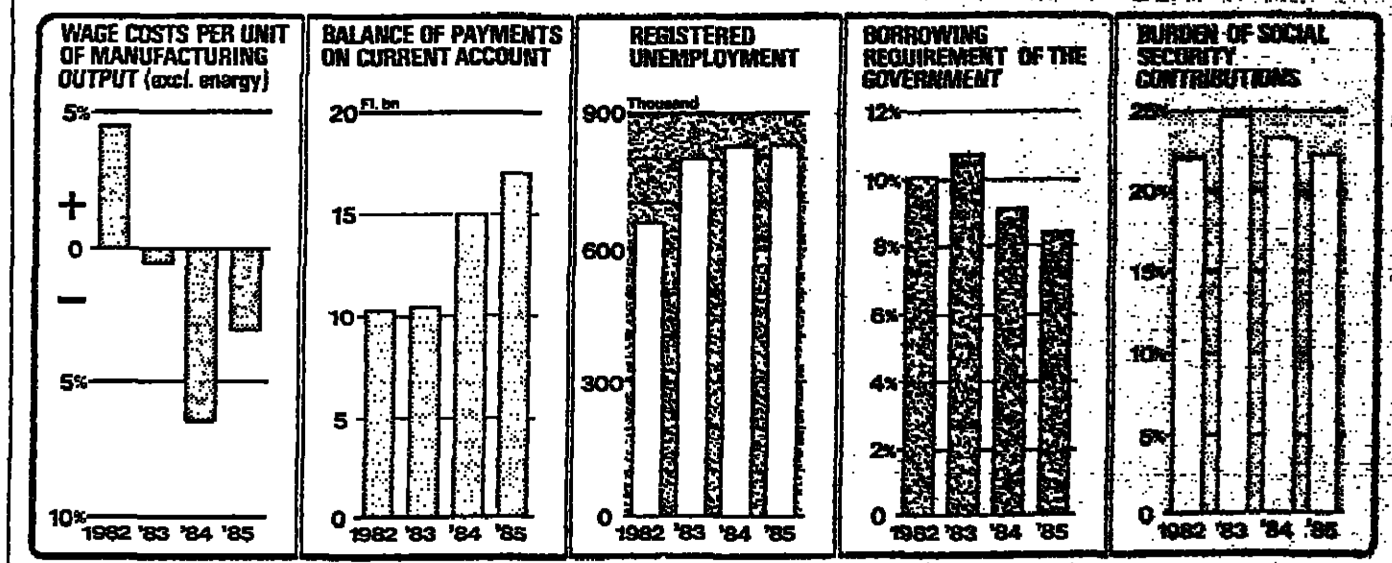
IN THIS SURVEY

The Netherlands 2



Tuning retrenchment programmes

The Economy

LAURA RAUN

THE NETHERLANDS has been an economic laggard of Europe for years.

In the 1970s, soaring wages, dwindling profits and burgeoning national - budget deficits slowed economic growth. Holland has sought to rectify these imbalances but the austerity policies used to regain control have put a lid on expansion.

Now the debate is how vigorously to continue the retrenchment programmes that have reduced the gaping budget deficit, curtailed Government spending and lightened the tax-and-premium burden for the first time in recent history.

Some relaxation is set for this year and more seems likely for next year, when national elections are to be held in May. The Dutch, who historically have been noted for their tolerance, still eagerly embrace compromise and thus appear set to accept less economic growth in return for greater social security.

In many respects the Dutch economy looks very healthy. Inflation has been hammered down from 10 per cent in 1975 to forecasts as low as 1½ per cent for this year, which is lower than the rest of Europe, the U.S. or even Japan. The public sector deficit, which peaked at 9.4 per cent of Gross Domestic Product (GDP) in 1983, is expected to narrow to 7 per cent this year, within range of the goal set by the Centre-Right Government when it entered office.

Industrial profitability doubled between 1980 and 1983 and is forecast to show further gains this year.

In other respects, however, the Dutch economy is quity weak. Gross National Product (GNP) is expected to edge up to only 2½ per cent this year, which would be one of the most lacklustre performances in the Organisation for Economic Co-operation and Development (OECD). Last year the economy expanded at a rate of just 2 per cent, after contracting or expanding only slightly since the 1970s.

But the worst problem has been rampant unemployment. The jobless rate has not fallen below a painfully high 17 per cent in two years, one of the poorest records in Europe (although the Dutch use a stricter definition of unemployment). And it is expected thus rate will not decline this year, despite the first increase in employment in four years.

That is because The Netherlands has trailed most of the Western world in absorbing women into its labour force and only now is beginning to catch up. The Dutch also lagged the industrialised world in slowing their birth rate and thus are still saddled with numerous baby-boomers entering the work market.

In addition to demographic factors, legal rigidities also impede efforts to pare the ranks of the unemployed. Dismissing workers is so heavily mired in legal procedures that employers think long and hard before putting new people on the payroll. A Government-sponsored commission was established several years ago to probe dismissal procedures and recommend ways to expedite the process but the panel's conclusions are still sitting on the back burner.

Labour mobility is further hampered by restrictions on moving to a new location due to the nationwide, persistent housing shortage. The Government of Prime Minister Ruud Lubers gained approval for a measure making it easier to dispose of one's house when moving, but it's too soon to tell whether the law has increased workers' willingness to move.

Furthermore, the powerhouses of the Dutch economy often are energy-intensive rather than labour-intensive industries such as refining, chemicals, food processing and tobacco products.

Mr Lubbers' Christian Democrat-Liberal coalition entered office in November 1982 on a three-pronged plan of restoring health to the private sector, reducing Government spending and redistributing the available work. The Government claims much of the credit for the economic gains since the early 1980s, although the global upturn has clearly played a significant role.

In line with Holland's centuries-old tradition of trading, exports and imports still account for more than 60 per cent of GDP. This comparatively heavy reliance on foreign trade has enabled the Dutch to exploit the worldwide recovery, thus lifting their current-account surplus on the balance of payments to an estimated Fl 17bn ($4.8bn) this year from a deficit as recently as 1980.

Critics such as the Labour movement argue that this export-led growth does not provide enough jobs and even the Government's chief economic adviser complains that foreign trade stimulates domestic demand more than supply. Mr Frans W. Rutten, Secretary-General of the Economics Ministry, recently called for a strengthening of the economy's supply side, although he admitted that high budget deficits remained a constraint.

As an indication of current Dutch thinking, one centre-left newspaper responded by saying: "After the measures dealing solely with a reduction of the role of government . . . largely by means of draconian economies, Rutten now realises that this is not the whole story." Most public debate, in fact, centres on sharing out income rather then producing it.

The Lubbers Government—particularly hard-line Finance Minister Mr Onno Ruding—has attempted to shift the emphasis in public policy to individual responsibility and away from collective security.

Mr Ruding has largely crafted the measures that have provided relief from the burdensome taxes and social premiums for both individuals and companies.

Taxes and social -security contributions, which accounted for nearly 50 per cent of GDP in 1983 are set to fall to 47 per cent this year, still a comparatively high level. The corporate income tax, which was cut to 43 per cent last year from 48 per cent, is to be lowered again to 40 per cent next year.

But criticism comes from all sides, even friends. Mr Wim F. Duisenberg, President of The Dutch Central Bank and a previous proponent of invigorating industry, recently admonished the Administration for giving the business community tax-and-premium breaks at the expense of a heightened effort to slash the budget deficit. He acknowledged, however, that lower taxes were immediately visible whereas the benefits of narrower budget deficits were not seen "for one or two cabinets."

The Centre-Right Government has also attempted to reverse a long-standing policy of levelling incomes in all brackets, primarily through a sharply progressive tax structure.

This pervasive policy, which for example links Government-assistance levels to wage levels, is widely conceded to stifle initiative. The Lubbers Administration has sought to encourage more income differentiation as a way of revitalising work incentives, but has encountered stiff resistance from the Labour Party and unions.

In looking ahead, the Dutch are not overly distraught by the expected downturn in the U.S. economy. The Central Planning Bureau, which paints a moderately optimistic scenario, assumes that U.S. economic growth will decelerate to no more than 3 per cent from last year's approximately 6½ per cent. The U.S. share of Dutch exports should stabilise around 5 per cent after soaring as 12.5 per cent last year. But that is not expected to hurt the trade balance, according to Algemene Bank Nederland (ABN), the leading Dutch bank.

With real incomes forecast to edge up, consumer spending is seen as rising for the first time since 1980, while fixed investments are forecast to grow 5 per cent, the biggest gain in five years.

The Central Planning Bureau is projecting wages rise only 0.5 per cent, although the Dutch Labour Federation, the largest union grouping in the Netherlands, is talking of a 3 per cent "maneuvering room."

Mr Hank Leemreize, an economist for the federation, notes that labour productivity and inflation are each expected to increase 1½ per cent, providing the 3 per cent space for negotiation. Moreover, the unions want employers to agree to make up the difference in slimmer sickness benefits paid by the Government.

Last Autumn the Labour Federation sponsored a week of mild demonstrations to introduce demands for the round of wage negotiations that began then and are still continuing. At the moment, however, there is no reason to expect any action approaching the strikes of autumn 1983, considered the worst labour strife in Dutch post-war history.

The improved economic health and reasonably good outlook do, however, leave many Dutchmen wondering why Holland's growth is lagging. Those on the left blame restrictive economic policies, while those on the right point to a shackled private sector. One thing seems fairly certain, though-The Netherlands is destined to be a plodder for some time to come.

Growing room for optimism

CONTINUED FROM PAGE 1

including holiday allowance, for married couples and Fl 1,065 a month for single individuals.

At the beginning of January unemployment, sickness and disability benefits were pared further, though general welfare and child allowances were raised slightly. The unions and socialists argue that any reductions are exacerbated by flattened or eroded real incomes and the 17 per cent-plus unemployment that have persisted during Mr Lubbers' two years in office.

In general, however, the unions maintained a low profile last year following the worst labour strife in Dutch post-war history during the autumn of 1983.

Wage moderation prevailed as cost-of-living allowances were traded for shorter working hours, usually arranged in the form of free days rather than a curtailed working week.

That trend is expected to continue in the current round of labour negotiations being conducted, although predictions vary on the actual wage increases workers will get. The Central Planning Bureau (CPB), the independent Government forecasting agency, expects wages to edge up only 0.5 per cent but that is too optimistic according to most private economists, who are predicting rises of 2 per cent, thus raising this year's inflation rate above the 1½ per cent forecast by the CPB and closer to 2-3 per cent.

In the political arena, the biggest opponent of less Government spending is the Labour Party, which has gained sharply in public opinion polls. According to these polls the Government coalition would lose its majority in an election held now, with most of the seats going to the Socialists. Not surprisingly a recent poll showed the Labour Party attracting those who suffer more from welfare cuts and sluggish job openings—the poor and less educated.

The Socialists' surge in the polls highlighted one of the party's periodic flirtations with the rightist Liberal Party late last year. The two groups are often diametrically opposed on economic, social and defence issues but they share a common desire to oust from government the Christian Democrats, who have shared power in every administration since World War II.

Another factor at play in the Netherlands' regained confidence is the cruise-missile decision of last June in which the Cabinet determined that nuclear missiles would be stationed on Dutch soil depending on the number of Soviet-deployed missiles as of November 1 1985.

If the Soviet Union has deployed more than 378 SS20 missiles by that date, the Netherlands will accept its 48 cruise and Pershing II missiles as mandated by the North Atlantic Treaty Organisation (Nato). Otherwise, no Dutch missiles will be placed at the Woensdrecht air base near the Belgian border.

If the Soviets and Americans agree to reduce their nuclear arsenals by the deadline, which the Dutch hope occurs at the resumed Geneva talks, then the Dutch will accept a proportionately smaller number of missiles.

The complexity and subtlety of the decision were widely attributed to Mr Lubbers' political expertise, which crafted a plan that would please no one but appease enough to prevent a collapse of the Government.

Mr Lubbers said recently that he viewed the decision as beneficial not only to the Nato partnership and arms-control initiatives but also to domestic Dutch society. "I don't want to exaggerate the importance of the Dutch decisions for Soviet negotiations or the resumption of new talks," he said. "But we also must not talk of us being mouse-like in foreign politics. We are not."

The Netherlands is a country of consensus and its propensity to compromise seems set to prevail unless and until the deeper social and economic problems surface viciously enough to jolt the equanimity.

Jostling to succeed Den Uyl

Politics

WALKER ELLIS

Mr Ruud Lubbers, the Dutch Prime Minister (left), will be looking to relax austerity measures to lift his popularity towards elections to be held in 1986. Meanwhile, the big medium-term issue is when Mr Joop Den Uyl, leader of the opposition Labour Party (right), will quit active politics.

THE post-Watergate determination of Western democracies to demonstrate the justice and efficacy of the system in the face of occasional human lapses is well documented. Most obviously in the past year, there was the stalwart performance of the West German parliament in handling the so-called Flick *Affair*. Before that, in Japan, there was the public investigation of Mr Kakuei Tanaka, the former Prime Minister, following allegations of corruption.

So it has been in the Netherlands.

On December 10 last, a Dutch parliamentary committee of inquiry—only the second such since the war—reported to parliament in The Hague about the collapse of the state-aided RSV shipbuilding group. RSV had absorbed Fl 2bn ($564m) of public money in the seven years prior to its being wound up in February 1983.

A total of 18,000 jobs were lost, and there was a considerable degree of concern about how the taxpayers' cash had been spent.

The report, based on a highly publicised series of hearings, was highly critical of Mr Gijs Van Aardenne, the present deputy Prime Minister, who was Economics Minister during a critical period in the debacle.

He had been accused of bungling RSV's financing, and the report concluded he had been guilty of providing parliament with "misleading and unacceptable" information. Mr Van Aardenne was not blamed for the actual demise of RSV. Clearly, though, his position was shaky. He was still Economics Minister, after all, as well as deputy Premier, and MPs demanded satisfaction.

What followed demonstrated the best and worst of parliamentary democracy. Mr Van Aardenne — normally an extremely steady and personable man—defended his position in the House as best he could, arguing that, although things had obviously gone wrong with the state-funding operation, he had not set out deliberately to mislead parliament.

Mr Joop Den Uyl, the somewhat stern Labour Party leader, was, predictably, unimpressed and called on the minister to resign. Labour, with 47 seats in the 150-seat parliament, supported its leader.

Mr Van Aardenne, a Liberal, quickly rallied his own Liberal troops and even won considerable sympathy from the more equivocal Christian Democrats, with whom his party is in coalition. It looked as though the trouble would fade away.

Then Mr Bert de Vries, the quirky and outspoken parliamentary leader of the Christian Democrats, appeared to change his mind. What was needed was a demonstration that parliament was not to be trifled with. A motion of censure was prepared, and a debate was hurriedly arranged to take place in the dead of night.

As things worked out, it could be argued that morality was decided on party lines. The Labour Party and most of the smaller opposition parties voted against Mr Van Aardenne; the Liberals and all but a handful of Christian Democrats supported him. Honour had been satisfied, parliament had bared its teeth and Mr Van Aardenne slipped quietly away to fight another day.

The fact that parliament was also criticised in the Commission's report for failing to show sufficient vigilance and giving in too easily to outside pressure groups may have helped whet MPs' appetite for justice. A scapegoat was wheeled on and then told that he was not, after all, to blame.

The coalition government, with its overall majority of eight, meanwhile carries on, more or less assured of the support of the House. The fact that the executive is separated from Parliament does make "backbench" support inevitably a little distant at times. When the crunch comes, however, most MPs fall into line.

One recent political oddity has been talks between the Liberal leader, Mr Ed Nijpels, and Mr Den Uyl about the possibility that the two parties get together after the expected 1986 general election to form a Right/Left government.

The parties concerned are far apart on major economic and social issues, as well as on nuclear arms. What they resent more than each other is the permanent presence of the Christian Democrats in government.

The Christian Democrats, led for the moment by the Prime Minister, Mr Ruud Lubbers, have been involved in Dutch cabinets in one form or another since time began, the other major parties believe it would be good for democracy if this were no longer so.

In the medium-term, the big issue is when Mr Den Uyl, who s 65, will quit active politics. He has hinted several times that he would like to step down, and would-be successors are jostling.

The Labour Party has been running high in the polls for more than a year and could see its parliamentary representation rise to as many as 60 after the next election. The Christian Democrats, it is estimated, would win around 45, compared with 47 in 1982, and the Liberals perhaps 32, against 36.

The polls also show that Mr Marcel Van Dam, a former Housing Minister and television chat show host, would be a popular choice for the leadership. The other leading contender is Mr Wim Kok, chairman of the large FNV trade union federation.

But Mr Kok has been ill, while Mr Van Dam has been in full cry. The outcome of the struggle to come within Labour could well determine the next Dutch Prime Minister.

Geneva talks come to the rescue

Foreign Policy

WALTER ELLIS

ABOVE: Cruise missile transporter. The issue of deployment in Holland should be decided, one way or the other, before the end of this year. BELOW: Lt Col Dessi Bouterse, leader of the military junta in Surinam, the problems of which have plagued The Netherlands

THE CRUISE missile debate has gone on so long in the Netherlands that it is hard to believe some people would not miss it when it is gone. Yet there are signs that, one way or the other, the issue will be decided before the end of this year.

For a start, the Government is currently committed to a decision by November. The cabinet, with or without the co-operation of parliament, could, presumably, agree to postpone a resolution for the umpteenth time. Indications are, however, that events are moving along with unusual swiftness, so that another deferral looks unlikely.

The fact that the U.S. and Soviet Union are once more around the conference table in Geneva was welcome news to the Dutch. When the Christian Democrat-Liberal coalition agreed last June, amid much confusion and no little convulsion, to put off the evil day on cruise until the end of the present year, it was on the basis of "wait and see."

If the superpowers began "meaningful" discussions on nuclear weapons which looked likely to lead to a measure of renewed arms control, then the Dutch would not deploy the 48 U.S. cruise missiles assigned to them by Nato in 1979. If, on the other hand, talks ran into the sand and the Soviet Union continued its build-up of SS-20 missiles in Eastern Europe, Holland would give deployment the go-ahead.

There was a third factor: the powerful Dutch peace movement, linking the Labour Party, the trade unions, the Churches, women's groups and masses of ordinary people. It, though, seemed willing at least to hang fire for a time in order to give the major parties concerned a chance to work things out. A decision to accept cruise in the Netherlands would undoubtedly provoke significant civil unrest for a time. Right now, that threat is in abeyance.

What has happened in the meantime looks a little contradictory at first glance. Washington and Nato have each warned that the SS-20 build-up has continued unabated. On December 6 last, Mr Caspar Weinberger, the American Defence Secretary, told Nato defence ministers meeting in Brussels that 387 SS-20s had by then been deployed—nine more than the previous estimate.

Mr Ruud Lubbers, the Dutch Prime Minister, had said that 378 was the maximum number which Holland could accept if it were not to accept cruise. According to reports from the U.S., President Ronald Reagan believes that the Netherlands (and neighbouring Belgium) will now deploy cruise on schedule.

Against that, Mr George Schultz, the U.S. Secretary of State, and Mr Andrei Gromyko, the Soviet Union's veteran Foreign Minister, have come riding to the rescue with their unexpected "Star Wars" talks in Geneva.

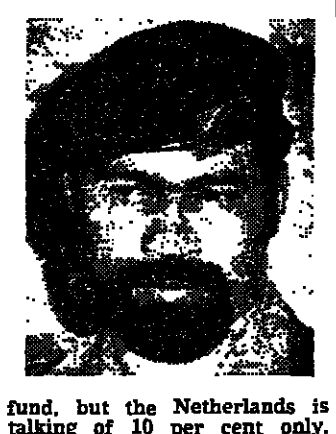
It is too early to say what the final outcome of the Geneva talks will be. What is clear is that the Dutch coalition will grab hold of them as to a lifeline, arguing that a vital piece initiative is in progress and that it would ill-behove the Dutch to upset this by wheeling in nuclear missiles aimed at *Moscow's friends*.

The peace movement will undoubtedly take this view, and it will have the backing of a large and demonstrative section of the Dutch people.

Many Christian Democrats will be similarly unwilling for deployment. Only a clear breakdown of the Geneva process and an accompanying disclosure that the Soviet Union really is piling up its SS-20s could persuade the centre-right coalition that deployment was essential. This could happen; Mr Lubbers will be hoping fervently that it does not.

Elsewhere on the foreign affairs front, the Netherlands has been preoccupied over the last 12 months with problems that would not be unfamiliar to either Britain or France: the imperial inheritance. It is well known that the Dutch once had a large and flourishing empire in South East Asia. What is not so often recognised is that it is the smaller, West Indian possessions which have continued to niggle away at Holland's conscience.

Surinam, an impoverished dictatorship on the north east coast of South America, has plagued modern Holland for a generation. It was granted its independence in 1975, and severance terms were such that a large proportion of the native population was transferred to the Netherlands.



Large-scale aid was also granted. But the eruption of a military junta in 1981 under the quasi-marxist Lt Col Dessi Bouterse, brought this agreeable development to an end. Fifteen political prisoners were shot dead by the army in the capital, Parimaribo, in December, 1983, and the Dutch response was to cut off the aid on which the Surinamese economy depended.

Since then there has been the Grenada invasion, which was "welcomed" by Col Bouterse apparently lest the Americans turned their attentions in his direction. Under economic pressure from The Hague and political pressure from Washington, the junta has tried to "clean up its act." New political institutions have been assembled, and talks have gone on haltingly with the Netherlands.

So far, Mr Hans van den Brock, the Dutch Foreign Minister, has remained obdurate: he wants a full restoration of democracy before there is any restoration of aid. But the issue continues to niggle. The Dutch do not like to see the Surinamese people suffering indefinitely because of one man's alleged tyranny. Something may give in the course of 1985.

The Dutch Antilles is the other "domestic" foreign issue. The Antilles, with their capital, Willemstad, on the island of Curacao, off Venezuela, have been semi-autonomous since 1954. Plans for full independence, linked inevitably, to an aid programme, have been hampered, however, by the extent of an envisaged financial "solidarity fund" and by the impending breakaway of the second largest island, Aruba.

Curacao, which is being hard-hit at present by the sharp decline in demand for its petroleum refineries and by U.S. antipathy to its tax-haven status, believes that without the strength of Aruba, the new nation will fail.

It is seeking a major Dutch contribution to the solidarity fund, but the Netherlands is talking of 10 per cent only. Aruba intends to go it alone in 1986, and much remains to be resolved if various independence deadlines are to be met.

The Dutch are much concerned with "doing the right thing" in world affairs. They contribute more development aid per capita than any other country except Norway, and recent attempts to cut back have induced deep soul-searching.

It is soon to give Fl 350m ($98.8m) to the World Bank to help make Africa's poorest nations self-sufficient in food, and it is active in assisting Indonesia—another former colony—through its chronic debt crisis.

But cuts are being made: the Government is determined that every department of state should contribute to its efforts aimed at reducing public spending.

Within Europe, the Netherlands has been much exercised by the decision of the EEC to reduce dairy production. Agriculture and food-processing is the country's biggest export earner.

Farmers have complained bitterly that their efficiency is to be penalised while farmers elsewhere—especially in Ireland—continue to receive special attention. But the row has ebbed. The Dutch do not like to perpetuate discord in the Community that has given them so much.

Profit margins under pressure

The Amsterdam Bourse, where the index reached a record high on the first day of 1985 with the largest ever one-day rise.

Banking and Finance

LAURA RAUN

REVELATIONS of dubious dealings involving a few obscure investment firms have rocked the Dutch banking community in recent months, threatening to tarnish Amsterdam's trusted reputation.

Claims of high-pressure sales tactics, false advertising and even investor fraud have swirled around the Herengracht, Amsterdam's centre of investment banking. The Finance Ministry grew alarmed enough that it finally unveiled legislation that had been languishing for more than 10 years relating to investment advisers and share offerings.

The proposed regulations would insititute a permit system for stock brokers who are not members of a recognised Bourse and require a "clear" prospectus for securities that are not listed on a known stock exchange.

In introducing the draft legislation. Finance Minister Mr Onno Ruding decried reports of at least 100 cases involving suspected malpractice at an *estimated* loss of Fl 200m ($56.5m) or more in the past couple of years.

He noted that in commodities-futures trading alone, around 300 companies had advertised unlisted securities during the two-year period, suggesting that The Netherlands has attracted traders in search of a free-wheeling environment.

But the biggest outcry has been over companies such as Trier Investments and First Commerce Securities, which are relatively unknown firms that provide advice and brokering services.

First Commerce Securities whose real owners remain publicly unknown, was angrily accused by the Amsterdam Bourse of advertising misleading information about an initial share offering last autumn. Newspaper advertisements claimed the new shares of City Clock International, a maker of freestanding clocks carrying advertising, would be traded on Amsterdam's Parallel Market.

The Parallel Market, which has more lenient requirements than the official market is regulated by the Amsterdam Stock Exchange.

First Commerce defended itself by arguing that the use of the words "parallel market" were due to a translation error but agreed to run a public correction. In an earlier case, the Association for Investors' Protection protested First Commerce's involvement in an initial share offering of Devoe-Holbein, a young, high-technology company that developed a process for reclaiming valuable metals from water.

Pierson, Heldring and Pierson, the most well-known Dutch brokerage firm, was also originally involved in the share offering but later distanced itself following questions about Devoe-Holbein's finances and First Commerce's operations.

> The Dutch Finance Ministry is proposing regulations which will institute a permit system for stockbrokers who are not members of a recognised bourse.

Meanwhile, the Dutch commercial banks are plagued with their own problems. Profit margins for 1984 are expected to remain under pressure due to continuing high levels of loan-loss reserves and the financial difficulties of several Dutch companies.

For example, Boskalis, the international dredging and construction company, has received an indefinite moratorium on its interest payments to creditor banks following losses of Fl 200m last year.

In 1983 Dutch banks set aside a record level of reserves for possible bad loans and they will probably not lower that amount for 1984.

While Dutch banks have relatively little debt exposure in Latin America and only moderate exposure in Eastern Europe, the sluggish Dutch economy has taken its toll on profits.

Algemene Bank Nederland, the largest of the country's banks, expects earnings to fall as much as 24 per cent in 1984. Amsterdam-Rotterdam Bank (Amro), the second largest, will report lower net income for 1984, according to a well placed source at the bank. Standard and Poor's, the U.S. credit-rating firm, last year lowered Amro's rating to A1 from A1-plus due to "weaker assets and eroded quality of its investment portfolio."

Some of the best news came from the Amsterdam Bourse, which rebounded from a mid-year low to finish 1984 on a strong note. The General Stock Index continued to climb in the new year, reaching a record high on the first day of trading with the largest-ever one-day rise.

A sharp decline in interest rates beginning last May sparked the gradual but persistent ascent, while widely improved corporate profits fueled the buying. Corporate profits are expected to advance another 10 to 15 per cent this year after surging about 33 per cent last year and some analysts hope for further easing in Dutch interest rates.

The recent round of interest-rate declines in the U.S. have not yet been followed by a parallel drop in Dutch rates, thus providing room for further easing.

The key bond-market rate could drop to as low as 6¼ per cent this year from the current 7¼ per cent, according to one analyst who usually takes a pessimistic view.

Moreover, price earnings ratios (PEs) remain quite attractive by international comparison even considering the higher profits. One securities analyst at a well known Dutch brokerage firm predicts that PEs will actually shrink from 8.7 to an average of 7.8 this year for the most active, international Dutch companies. Such levels would compare quite favourably with the U.S.

Another encouraging sign is the escalating activity on Amsterdam's Parallel Market. Eleven share offerings were launched on the relatively new market last year, compared with four the previous year, and even more are expected this year. Companies are gaining familiarity with the young market not only as a means of raising capital but also as a way of *gaining a listing*.

Powerful wind of change

CHANGING face of the Dutch landscape. Wind turbines are appearing increasingly in the Dutch countryside alongside the traditional windmill, to make a small but growing contribution to the country's energy needs. This wind generated energy is in some cases replacing Holland's abundant gas reserves as a source of power for both industrialists and market gardeners.

Emphasis on fresh export contracts

Gas

JAMES BALL

ON JANUARY 2, the Dutch gas company Gasunie announced its first new gas export deals in ten years. The deals, with three of its German customers are sure to be followed this winter by similar arrangements with its other European customers. *They inaugurate the* Dutch Government's energy stance for the 1980s, a sharp reversal of its policy since 1974.

In 1983, some 15 per cent of all Dutch Government revenues came from natural gas. That year they reached Fl18bn ($;5.1bn) down from Fl22bn the year *before. So, following* almost a decade of banning further export contracts, the Government decided to allow fresh exports to resume.

When the ban was enacted, in the mid 1970s (as a reaction to first oil crisis) the Netherlands accounted for 50 per cent of the gas supply to its European customers, sending out 47bn cubic metres of gas. In 1983, the Dutch share to the same customers—in Germany, Belgium, Italy, France and Switzerland—amounted to just 35bn cubic metres and 28 per cent of those countries' gas supplies.

At home, there is little room for growth in gas sales. The Netherlands already has Europe's highest proportion of domestic gas connections (95 per cent) and the highest of the heating market (90 per cent). Dutch gas accounts for close to 50 per cent of the country's energy demand, a share which is expected to fall as gas, after 1987, is replaced as a power generation fuel by coal.

So, Dutch attention turned to export markets and, over the course of 1984, the fine details of a new strategy were developed. Basically it has two prongs: The preservation of the market share of Dutch gas in *Western Europe*, and the extension of existing contracts, at current levels, for an additional 10 years through new export contracts.

Because 1984 was the year when regular, three-yearly, renegotiations of existing contract price and *terms* were scheduled, Gasunie used the occasion to put its fresh strategy into practice.

To maintain its market share in Europe — which had been steadily eroded by imports of Soviet and Algerian gas during its absence from the market — Gasunie proposed a revision of the price indexing formula.

The three German contracts approved by the Dutch Government on January 2 indicate how this has been achieved. Instead of low sulphur fuel oil (LSFO) prices alone determining price rises, as in the past, gasoil prices have been added.

This has the effect of both keeping gas priced against its keenest *competitor in the heating* market, gas oil, and effecting a lower nominal price as at October 1, 1984. With the latest Soviet contract to Italy understood to be priced at $3.60 per million British thermal units (BTUs), the Dutch needed to give their customers—paying over $4/m *BTU*—some price break to stay competitive. In the long run, Dutch revenues may be unaltered.

Furthermore, Gasunie increased the "capacity charge" which is the price customers pay for facilities to meet large *seasonal swings in demand.* Neither Soviet nor Algerian contracts allow for significant variations in winter and summer delivery levels. The Dutch have so far provided this flexibility at minimal cost. In future customers will have to pay more.

On the export side, Gasunie re-entered the market at a time when Europe is awash with gas stocks. By negotiating extension contracts, rather than trying to sell increased volumes today, Gasunie offered its customers 10 more years of grace at a time when the supply picture is unclear. The correct contracts run out from around 1993 to 2005.

Final price and delivery terms will be left open for renegotiation in the year before each new contract comes into effect.

After two decades of production, the giant Groningen field — which provides 64 per cent of Gasunie's supplies — still has reserves in excess of any other gas field in Europe (the giant Soviet fields are in Soviet Asia). With projections of European energy demand well down on those of the 1970s, and with Groningen's proven reserves *still put at over 1,900bn cubic* metres, the Dutch will continue to play a pivotal role in Europe's gas business.

James Ball is editor of the FT International Gas Report.

Exports regain competitive edge

Trade

PETER SPINKS

SPURRED BY buoyant exports, the Dutch economy appears to be well on the mend. Lower unit labour costs have allowed exporters to regain their competitiveness and the Government forecasts that the current account surplus will widen by Fl 2bn this year to Fl 17bn ($4.8bn) equal to about 4 per cent of gross national product (GNP).

The central planning bureau expects the volume of both imports and exports to expand in 1985 by 3.5 per cent and 5 per cent respectively. This is significant when considering that Dutch imports and exports account for nearly 60 per cent of GNP, compared to only 30 per Britain.

Production in trade and industry is expected to rise by 2 per cent, with the largest rise of 4 per cent in the manufacturing sector. Restoration of competitiveness will be aided by holding down wages which are not expected to rise by more than 0.5 per cent this year, assuming that increases will be exchanged for shorter working hours and recovery in profits.

These restraints, together with reduced social security contributions of employers and a further rise anticipated in labour productivity, should lead to a sustained decline in unit labour costs.

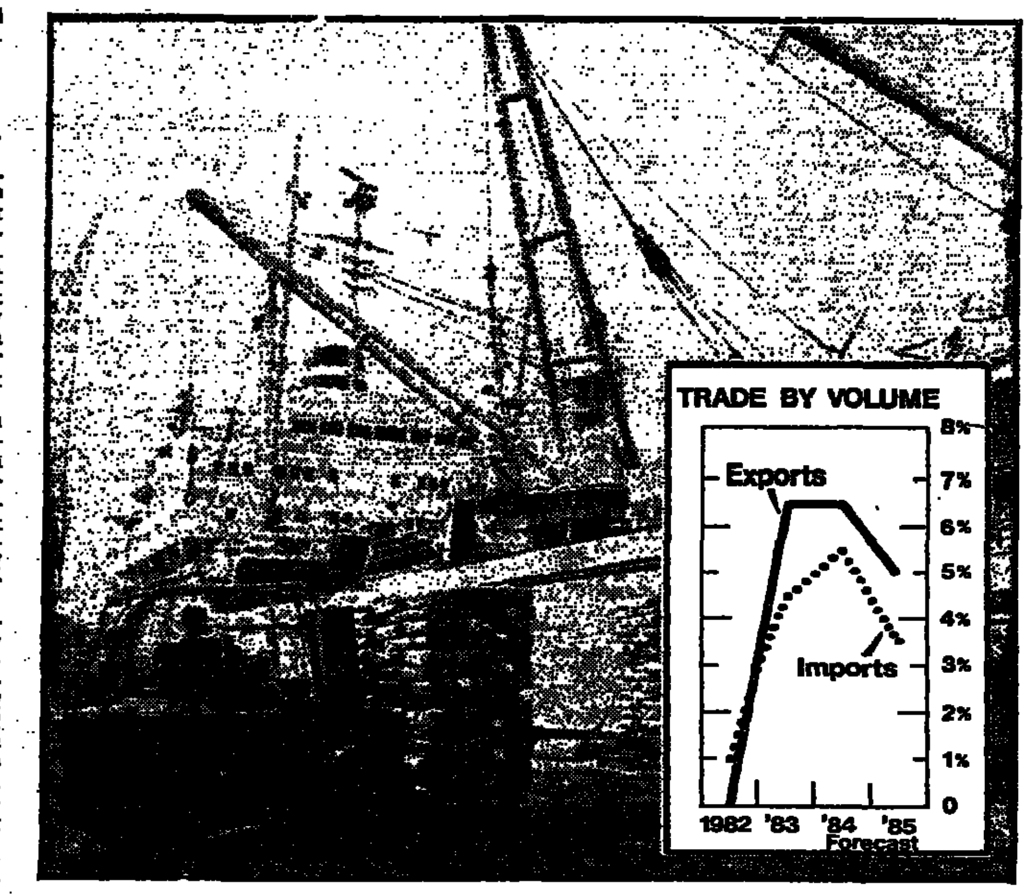
After tax profits of companies, excluding banks, are expected to exceed Fl 11bn in 1985 compared to Fl 8bn last year and Fl 0.5bn in 1983. Through no increase in indirect taxes, it is expected that consumer price rises will not exagainst 3.5 per cent in 1984.

Due to increasing transfers abroad and a deterioration of terms of trade, real disposable income is expected to rise by a modest 1 per cent compared to a real GNP growth of 2 per cent. Export prices are forecast to remain unchanged for 1985 while import prices will go up by 1 per cent.

Exports of a traditional nature were good performers last year, and the foreign trade agency ranked the following export sectors in descending order of growth rates: chemicals and mineral products, machinery and electronics, raw materials, instrumentation, paper products, food, textiles, clothing and transport equipment.

The rate of growth of Dutch exports exceeded that of general world trade in the 1950s and 1960s. But it suffered from rising oil prices in the 1970s, falling to an average of 3 per cent a year despite a growth of 4.1 per cent in foreign demand for Dutch products.

Since a Fl 5.3bn trade deficit in 1980, there have been surpluses of Fl 6.8bn in 1981, Fl 9.7bn in 1982, Fl 11.4bn in 1983 and Fl 9.3bn in the first half of last year. This trend has been due largely to the relatively low level of imports, but if Dutch industry recovers as expected, imports will inevitably increase.



Government ministers argue that the improving trade performance results from macroeconomic policies rather than from measures aimed specifically at exports.

"Our exports are booming now, after being depressed for *a number of years by the wolrd* recession," says Mr Onno Ruding, finance minister. "But we do not want to introduce artificial export incentives like some countries because, among other things, these are against the General Agreement on Tariff and Trade (GATT) rules."

The three main Dutch political parties, all of which tend to avoid actions that may be considered unfair by trade competitors, are in favour of reducing trade barriers rather than curbing provision for third world aid this year.

These proposals follow a recent International Food Policy Research Institute survey which indicated that a 50 per cent reduction in OECD trade barriers would increase third world exports by 11 per cent or $3bn annually.

Although Dutch traders benefitted in the seventies from the infrastructure developments in third world oil producers, the Netherlands' income from such trade fell by more than half to $106m between 1982 and 1983.

Dutch exports to the developing countries nevertheless continued to rise—a fact which has led to current problems with the country's export-credit balance sheet.

The Government's commitments on export-credit risks incurred through NCM, the Amsterdam-based credit insurance company which reinsures non-commercial or political risks with the Government, rose from 1982 by 14 per centto stand currently at Fl 40bn. The insurance surplus that accumulated since 1945 fell to Fl 152m in 1982, turning into losses of Fl 306m in 1983 and Fl 825m last year. The deficit is projected at Fl 380m this year.

This prompted Mr Ruding to raise insurance premiums, which currently rangef rom 0.5 per cent to 7.6 per cent of the total order, and to impose stricter controls on cover for Dutch exports this year.

Such facilities as trade among third-party countries, credit offered direct to governments, and the current 50 per cent limit on foreign components in Dutch exports are likely to be restricted.

Argentina is the Netherlands' heaviest debtor, although Poland, Nigeria, Zaire, Libya and Mexico also account substantially for recent reinsurance losses.

Although the EEC took two-thirds of Dutch exports last year, Asia, Africa and Latin America accounted for over Fl 18bn in total trade. This stems largely from a high proportion of development aid—estimated to be over 40 per cent at present—being tied to Dutch trade.

With a development aid budget set at 1.5 per cent of net national income (0.92 per cent of GNP), the Netherlands currently ranks second, behind Norway, in the world's donor league. The Dutch increased annual contributions to developing natoins from Fl 767m in 1970 to Fl 4.4bn in 1983, although the budget ceiling dropped last year for the first time by Fl 35m.

Following British, U.S. and West German moves, the Dutch minister for development cooperation, Mrs Eegje Schoo, proposed measures last year to remedy the frequent complaints that over a third of Dutch aid is inefficiently spent.

These measures, which give less emphasis to bilateral trade, encourage more involvement of the private sector and include a changed system of budgeting whereby funds are allocated several years ahead following agreements with developing countries as to how they intend *spending their aid.*

It is also proposed that aid be provided in future on the condition that a higher proportion be spent on purchasing Dutch products. Government critics argue, however, that the tyeing of aid to trade is a two-pronged issue — with Dutch companies perhaps benefitting from more aid being spent in the Netherlands while at the same time being given "lame duck protection" in the form of hidden subsidies to ailing industries.

The Netherlands council for trade promotion and the foreign trade agency are nevertheless set on continuing to assist Dutch companies to improve their long-term prospects in Asia and the Middle East.

Challenge lies in varied repertoire

National Ballet

CHARLES BATCHELOR

THE *Netherlands* has built a considerable reputation over the past 25 years in the world of modern dance. It owes that name to two companies, The *National Ballet, based* in Amsterdam, and the Nederlands Dans Theater in The Hague.

The National Ballet, which celebrates its first quarter century next year sets itself demanding goals.

Its 88-strong troupe, under the leadership of artistic director Rudi van Dantzig, maintains the classical repertoire with performances of Sleeping Beauty, Giselle, Swan Lake and Romeo and Juliet.

But, the National Ballet also *aims to preserve the most* important ballet styles of the 20th Century. Sonia Gaskell, the Russian-born choreographer and ballet teacher who in 1954 set up The Netherlands Ballet, the predecessor of the present company, had close contacts with former members of Diaghilev's Ballets Russes.

This resulted in the inclusion of works by choreographers such as Balanchine, Skibine and Fokine in the company's repertoire from an early date.

With more than 20 Balanchine works in its programme The National Ballet is the foremost performer of the Russian-born master's works after his own company, the New York City Ballet.

The National Ballet devotes the rest of its energies to promoting contemporary works, many of them written by its own three-man team of resident choreographers.

In what The National Ballet believes is unusual for a company of its international renown, it can call on the choreographic talents of Hans van Manen and Toer van Schayk as well as of Rudi van Dantzig.

All three men, now in their late 40s or early 50s have had long careers with The National Ballet. Van Dantzig came in 1968 after the retirement of Miss Gaskell, the founder. Van Manen and Van Schayk both began choreographing for The National Ballet in the early 1970s, the former joining the company from the Nederlands Dans Theater and the latter after nearly 20 years as a dancer and designer with the National itself.

The three men, usually working individually but sometimes in collaboration, have created a modern tradition of abstract "intellectual" works, frequently dealing with social or political problems.

The difficulty of some of The National Ballet's modern work, faces the company with the problem of how to introduce it to a wider audience.

"*We tried to mix triple bills* illustrating the three strands of our artistic policy," says Mr Dick Hendriks, head of planning. "But surveys of our audience showed it was difficult to label and sell a mixture.

The National Ballet, maintains a classical repertoire but also *aims to preserve the most important ballet styles of the 20th* Century

"So for commercial rather than artistic reasons we now put on an evening of Balanchine, or Van Manen or a classical ballet. But sometimes, taking into account our educative function, we sneak in a more difficult ballet with a popular one."

When it goes abroad, which now happens only once or twice a year because of cost and commitments *at home*, The National Ballet concentrates on its own modern works, to illustrate the modern Dutch ballet tradition. However, last summer its Sleeping Beauty won high praise in London.

"Normally, however, it does not make sense to take Sleeping Beauty or Swan Lake abroad," says Hendriks. "We want to take something typical of Dutch dance. So the repertoire is basically Rudi, Hans and Toer. We confront audiences with a repertoire they *rarely see. There are great* difficulties in getting acceptance but we don't want to compromise."

Despite the more modern repertoire which foreign audiences have come to expect of The National Ballet, all its dancers undergo a classical training so that they are available for that part of the company's programme. Classes in modern dance are given by guest teachers.

The National rations its foreign appearances, preferring to go to the acknowledged centres of Dance such as London, New York and Paris and a number of German cities. There, it feels, it can make a contribution to the development of modern dance.

Just how broad an audience it can atract at home will be tested next year when it moves from its cramped quarters in Amsterdam's Municipal Theatre to a roomy theatre-cum-opera house now being built.

The present 900-seat theatre will be replaced in September 1986 by an auditorium offering 1,650 seats. Filling those seats, *Mr Hendriks acknowledges,* will be quite a challenge.

Conditions favour companies with international bias

Industry

LAURA RAUN

THE captains of industry in the Netherlands have reason to be happy these days.

Industrial profitability has more than doubled in the last four years, investment is finally picking up and wage demands remain relatively moderate. The centre-right Government of Prime Minister Ruud Lubbers is friendly to business and the open nature of the Dutch economy has enabled industry to fully exploit the worldwide recovery.

The sharp slowdown in wage costs — which had outpaced foreign competitors' during most of the 1970s—has done much to restore profitability. The return on equity in industry doubled to 9 per cent from 1980 to 1983 and is forecast to climb further this year.

Total labour costs as a portion of value-added fell to slightly more than 69 per cent in 1983 from nearly 73 per cent in 1982. In the same period, interest payments shrunk by Fl 500m ($141m) and taxes as a percentage of pre-tax profits plunged from 35.7 per cent to 25.4 per cent.

The business upturn, however, has not favoured all sectors equally. The international, blue-chip companies have tendedt o benefit more than their domestic, smaller counterparts. With less access to the global economy and more dependence on the sluggish Dutch economy, local companies have often lagged behind in profit gains.

As Mr Fokko Tuin, a securities analyst with Kempen and Co, the only publicly listed Dutch brokerage firm, explains: "The Dutch economy never fully participated in the U.S.-led economic upturn. Dutch companies operating only in Holland are vulnerable due to the saturated nature of the market in the Netherlands."

Corporate profits are also forecast to rise, climbing 10-15 per cent this year. That is slower than last year's 33 per cent improvement, but Mr Tuin notes that 1984's notable performance was in comparison with the bottom of the recession.

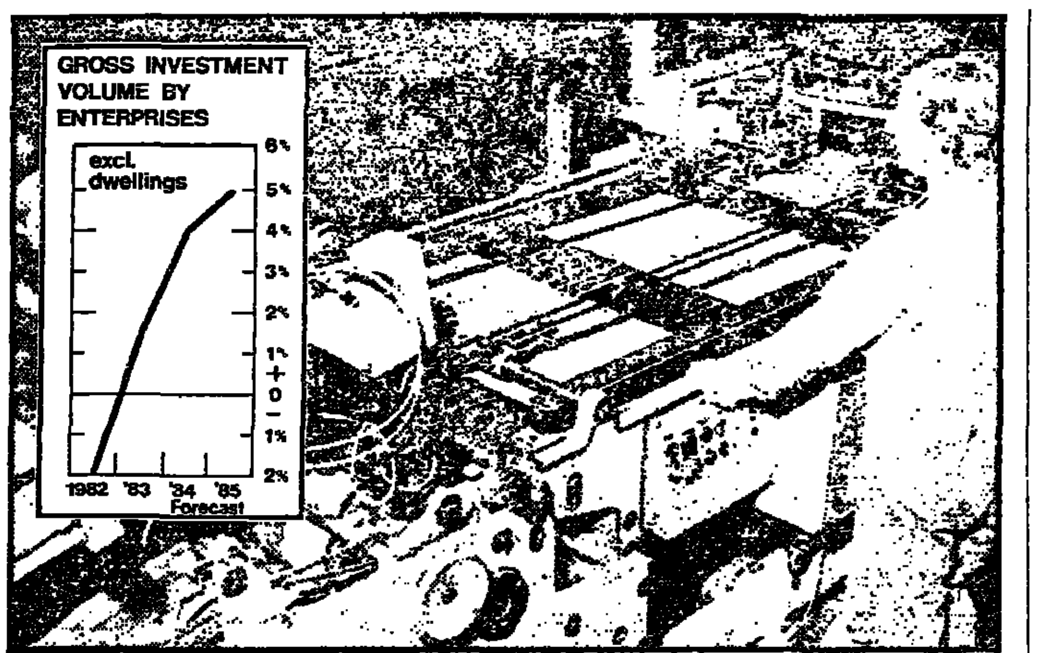
During the economic downturn of the early 1980s Dutch companies aggressively reorganised, paring down operations, dismissing workers and paying off debts. Their lean structure then yielded abundant fruit when the economy finally began reviving in mid-1983.

Now that business is improving, the private sector is loathe to fall into the traps of the past. Thus new workers are hired only slowly in order to preserve greater productivity, fixed investment is selective and expansion is careful. Private investment is expected to grow 7½ per cent this year after plunging 20 per cent between 1979 and 1982, while stockbuilding is seen accelerating only to 4½ per cent folowing contractions in 1982-83.

Industrial production, meanwhile, is seen stagnating at 1½ to 2 per cent this year compared with 2 per cent last year. The central planning bureau, the independent government forecasting agency, explains that the meager level of stockbuilding is damping industrial growth, while dwindling natural-gas exports next year will also dent activity. Moreover, the weak global oil market will erode the energy sector, where production will fall 0.5 per cent this year after expanding 2.5 per cent last year.

The long-term shift away from agriculture and industry towards the services and governmental sectors continues, raising troubling questions about the structural health of the economy.

Amsterdam-Rotterdam Bank, the second-largest bank in The Netherlands, notes that Holland's postwar industrial structure—which was based on cheap energy—faces escalating competition from newly industrailising countries such as Brazil, South Korea, Singapore and Taiwan. "This threatens to change our postwar industrial advantage into a handicap," the bank warns. "If this dis-industrialisation is to be halted, an adjustment of The Netherlands' range of products toward more sophisticated intermediate and final products is required."



Traditional industries such as shipbuilding and construction have suffered crippling setbacks in recent years, prompting fears for their continued viability.

Rijn-Schelde-Verolme (RSV), once the largest shipbuilder in the country, went bankrupt in 1983 despite Fl 2.7bn of state aid and the loss of 18,000 jobs. A parliamentary commission's report released late last year concluded the abysmally poor Government policies and corporate management drove RSV to its failure. The commission's findings sparked calls for the resignation of Economics Minister Gijs Van Aardenne, although he survived ta parliamentary censure motion by a comfortable margin.

The RSV debacle, however, may have sounded the death knell for much of the Dutch shipbuilding industry, which comprises more than 30 concerns and employs in excess of 11,000 people.

Amsterdam Drydock, which was spun off from RSV during its dismantling, recently recieved temporary court protection from its creditors after failing to get a Fl 10m bridging loan from the Economics Ministry. Moreover, the vast amounts of aid lavished on RSV to no avail and the harsh criticism of Mr Van Aardenne have focused attention on an alarming report on the shipbuilding industry.

McKinsey and Co, the international consulting firm, has concluded that without Government assistance, "an important share of the (shipbuilding) sector would come into serious danger." The European Community has forbidden state aid to shipyards in member countries after 1986 but Mr Van Aardenne will soon announce how much of taxpayers' money will be disbursed before the deadline. He will also reveal whether any policy changes are in order in the wake of the RSV inquiry and the McKinsey report.

Meanwhile, in the construction industry, Boskalis, a civil engineering and dredging company, has slashed its operations and received a moratorium on bank payments following losses that quadrupled in 1984 to Fl 200m.

The Dutch Government, which in 1980 reinsured an export credit of Fl 2.3bn, still faces a risk on Fl 1.3bn further exacerbating the controversy over policy on state aid to industry.

One way of fostering new, innovative industries is to cultivate the venture capital market. Tht plea has been made by such industrial helmsmen as Philips chairman Mr Wisse Dekker and Mr Cornelis Van Lede, the outspoken new head of the Verbond Van Nederlandse Ondernemingen, the largest employers association.

But the fastest growing industries are still the energy-intensive chemicals and electrical engineering sectors while non-traditional sectors are the most rapidly contracting.

With Government-aid policies under tortuous scrutiny, new industrial initiatives will apparently, have to come from the private sector. This could focus fresh attention on Dutch managers, whose reputation has been battered by RSV, Boskalis and other troubled companies.

Mighty arsenal for a pacifist people

Defence

WALTER ELLIS

POUND for pound, as the Americans say, The Netherlands' defences are among the strongest in the world. For a supposedly pacifist people, more determined than any other to keep cruise missiles out of Europe and halt the arms race, the Dutch are positively bristling with weapons.

Consider their armoury: F16 fighter aircraft, Leopard tanks, advanced naval frigates and submarines. Still to come are the U.S. Patriot air defence system, costing Fl 900m ($254m), a fleet of helicopter gunships for the army.

Few nations, including the more bellicose and belligerent could claim such an arsenal. The Netherlands is pacifist in the same way Sweden is pacifist: cross its frontiers with ill-intent and expect a bloody nose

Last month, a Nato survey revealed that only Britain within the alliance was spending more of its defence budget on material than Holland. The survey, covering 1984-85, estimated that the UK was number one on the procurement front, devoting 27.5 per cent of its defence spending on equipment, with the Netherlands second, at 22.6 per cent.

The same two countries also topped the equipment spending table for the previous two years.

Not surprisingly, this level of expenditure has not been greeted with universal acclaim by the Dutch. The present centre-right Government of Christian Democrats and Liberals pledged towards the end of 1983 to increase defence spending by 2 per cent a year in real terms until 1987 and by 3 per cent annually to 1993.

Dutch foreign and defence ministers had earlier been stung by Nato criticism—principally from Washington—that they were not honouring their alliance commitment to step up defence spending by an annual rate of 3 per cent. But in seeking to demonstrate their good faith in this area, they found themselves accused of betrayal at home.

The Labour Party, which has been racing up the opinion polls over the last 12 months in advance of the general election expected in 1986, called last summer for a 5 per cent cut in the defence budget for the 10 years ending in 1993. Mr Joop den Uyl, the present Labour leader, is an old-style pacifist, totally opposed to nuclear weapons and determined to keep conventional weapons to a minimum. He is not anti-Nato in the absolute sense; he does believe in a sense of proportion and avers to know what those proportions should be.

Mr Den Uyl is unlikely to lead Labour into the next election (he is already 65, and ailing), and his successor is likely to be somewhat more accommodating to Nato on defence. Even so, if Labour does become the senior partner in a future Dutch government, some slowing of defence purchases can confidently be expected.

The Defence Ministry itself reckons that Holland's interests are best served by quality rather than quantity. A report last September stressed the importance of the "operational readiness of well-trained forces" above the purchase of new weapons systems.

There is no doubting the preparedness of the Dutch armed forces—their soldiers, sailors and airmen have performed consistently well during Nato exercises: emphasis on quality, however, should not be taken to mean that the country has a mere handful of sophiticated devices but no defence in depth.

Apart from its own forces, equipped with substantial numbers of the latest weapons, the Netherlands gives houseroom to three Nato defence depots, the most recent of which was opened only last month. Cruise missiles, if they are eventually stationed, would be a formidable, if highly controversial, addition to this overall capacity to deter.

What cannot be denied is the extent of unease with which even Nato stalwarts in Holland go about their work of building up defensive capacity. The Dutch are sufficiently realistic to know that they cannot exist unarmed in the modern world; on the other hand, many of them would not mind giving disarmament a go, just to see what the effect of it would be.

In parliament, which seems accurately to reflect this dichotomy, Government and Opposition MPs last month hit out at the present high levels of defence spending. Concern was expressed about the morality of building up such a powerful collection of forces. At the same time, though, in quintessentially Dutch fashion, there were worries, too, about the cost.

Mr Harry Van den Bergh, Labour's defence spokesman, warned that the cost of two new, M-Type frigates now being built was likely to reach Fl 450m—overrunning estimates by Fl 100m. There was also criticism of the fact that Holland was to make a Fl 400m contribution to Nato's infrastructure fund, and anxiety about the setting aside of an extra Fl 150m to purchase fresh munitions.

A whiff of scandal even intruded briefly when it was disclosed that there had been considerable excess spending on Walrus-class submarines. The original cost was to have been Fl 425m; by 1984, with the two vessels still under construction, this figure had surged to Fl 940m.

Labour charged that the defence ministry was clearly unable to keep its spending programme under control, and the Christian Democrats warned of possible consequential cuts in other areas. The Liberals, more bullish, felt that the fault lay in the original meagerness of the estimates.

At any rate, with the waters lapping round his gunwhales, Vice Admiral Jan Hulsof, commander of Dutch naval forces, is to be relieved of his post with effect from June 1 this year. No formal link with the Walrus affair was made in the announcement of this premature journey to the breaker's yard for the admiral, but the Dutch press drew its own conclusions.

A letter to parliament from Mr Job de Ruiter, Defence Minister, hinted at an imminent rethink of the economic control directorate of the navy.

In general, despite the many misgivings on defence felt by the Dutch, the job of rebuilding and updating continues. Nato recently pointed out that The Netherlands was well on its way to reaching the Alliance target of a 3 per cent real increase in defence spending each year.

The Dutch quickly poo-pooed the idea. The rise this year would be only 2 per cent, they said. It depends, no doubt, on definitions. What is clear is that, on defence, The Netherlands prefers to hide its light under a bushel.

Testament to determination and ingenuity

Water

CHARLES BATCHELOR

IF THE pumping stations which line the Dutch canals were ever to stop more than half of the country would slowly but surely disappear back under water.

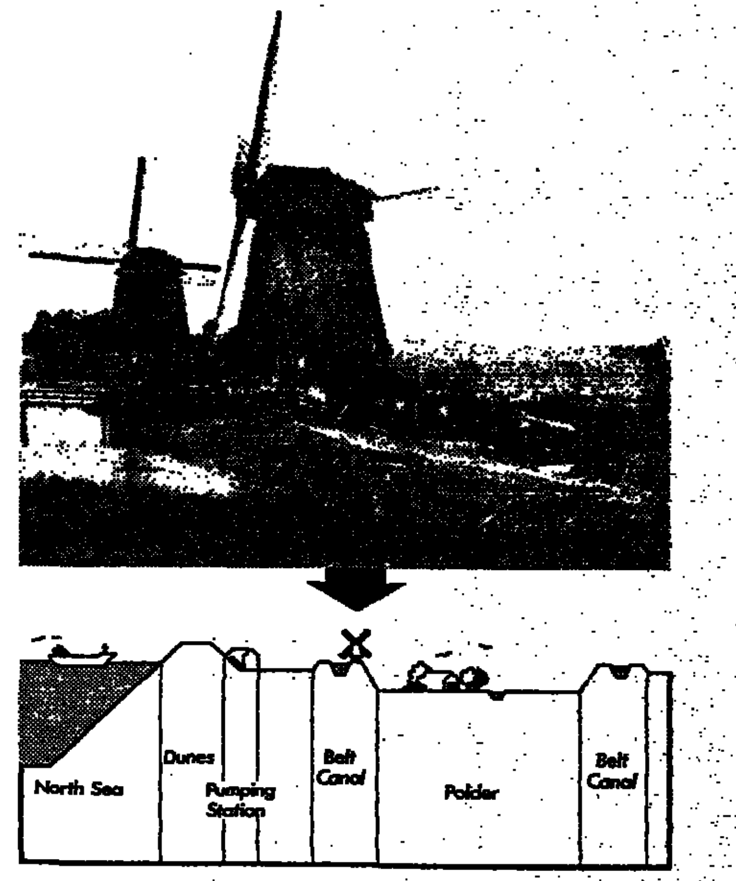
And long before the house tops in the lowest-lying polders had vanished from view salt water penetration of the fertile soil would have made one of the country's economic staples, agriculture, impossible.

The work of reclaiming the land does not stop with the seeding of the polder mud and its transformation into farming land. The electric and diesel pumps which have now replaced the windmill must run for as long as the Dutch want to retain their hold on the acres they have won from the sea.

Grandiose engineering projects such as the 30 km dyke which encloses the Ijsselmeer (formerly the Zuyder Zee) and the Fl 10bn ($2.82bn) Delta Project to tame the estuaries of the Waal and Meuse have caught the public imagination both in The Netherlands and abroad.

But the less dramatic work of controlling the palimpsest of waterways behind the dykes and the dunes is no less a testament to the determination and ingenuity of the Dutch.

Work has nearly been completed on the Eastern Schelde storm barrier, the final stage of the Delta Project. This will close the estuary opening in times of storms and high water but will otherwise allow free play of the currents and tides.



The Delta works are intended to prevent a recurrence of the disastrous flooding of 1953 which cost 1,835 people their lives. As part of the plan, sea and river dykes throughout the country are to be strengthened and raised to the Delta level.

Only 180 km out of the total 1,300 km of sea dykes and sand dunes have still to be improved and work should be completed by 1990. All but 50 km of the 550 km of river dykes remain to be upgraded, however, and this part of the programme will not be completed until 1998. Just over half of the Fl 3.1bn committed to this dyke improvement work has been spent.

Behind the dykes the pumps are at work maintaining the delicate balance between the water table and the surrounding land. The polders are kept dry by an intricate system of dykes and canals. These first of all drain the water to the lowest point and then carry it, often by means of a series of pumps, up and over the surrounding dyke and into a river or the sea.

Within the polder the land may be at many different levels, either by design or as a result of the settling of the soil. In the Beemster polder north of Amsterdam more than 60 different water levels are maintained, some with only a few centimetres between them.

The level must be kept to within fine tolerances to prevent damage to crops; to ensure that there is sufficient depth of water for barge traffic; and to prevent the wooden piles on which most Dutch buildings rest from drying out and crumbling.

The importance of water to The Netherlands is reflected in the continued existence of some 150 water boards as a fourth administrative layer alongside the state, the provinces and the local authorities.

An attempt was made six years ago to merge these boards into the larger provinces but after lengthy debate in Parliament the idea was dropped. Work is now going on to draw up a Bill to give the water boards legal status.

Dating back to the 12th century, hte boards were an early recognition that the job of reclaiming and maintaining the land required a specialist approach, yet one which also involved the whole community.

The governing bodies, chaired by the resonantly-titled dyke-reeve are still comprised of local landowners, responsible for maintaining the smaller waterways on their land, as well as representatives of the local population.

In some areas the boards are also responsible for roads, many of which run along the dykes, but the supply of drinking water is the responsibility of separate utilities.

Rationalisation has brought the number of water boards down from nearly 3,000 some 25 years ago but those which remani frequently retain the grandiose buildings from which they have run their affairs for several centuries. Impressive dinner services and collections of ceremonial glassware also tetify to their long traditions.

But the management of The Netherlands' water resources is too important to leave to tradition alone and the local boards now have the backing of a national water board authority which provides technical assistance, a professional secretariat and lobbying skills. These have been called on in recent years to defendt he dyke improvementp rogramme against proposed Government spending cuts.

To the North and West the Dutch are engaged in a battle against the violence of the North Sea. To the East they face no less serious a threat from the pollutants which the Rhine and Meuse carry down from the heavy industries of Germany and France.

As the rivers broaden and slow on their approach to the sea much of this deadly cargo of cadmium, mercury and salts is deposited in the form of a poisonous sludge.

Regular meetings of the five countries which border the Rhine have led to considerable reductions in the amounts of effluents which is pumped into the river. But the waste products of the potash mines of Alsace continue to pose a major threat to the cleanliness of the Rhine and the French Government has proved unwilling or unable to do anything about this problem.

The Dutch themselves have not been blameless in their treatment of their rivers but for the past 15 years they have been investing large sums to ensure no untreated water is discharged.

They spent more than Fl 1.5bn on treatmet plants and pumping stations in the five years to 1979. For the past five years total spending was planned to increase to Fl 1.3bn.

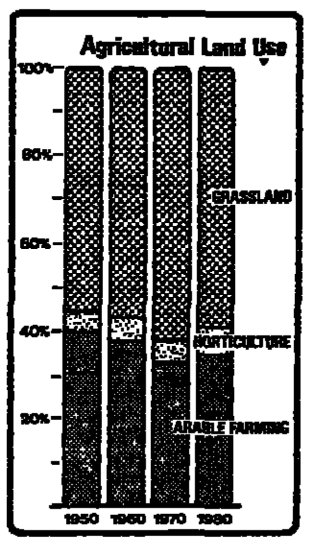
A statue of Hans Brinker, the boy who put his finger in the dyke to prevent its collapse, stands in the village of Spaarndam west of Amsterdam. In the polders around is the no less permanent evidence of the effort the Dutch as a nation have put into keeping their feet dry.

Livestock herd

(May census)	1960	1970	1983
Cattle ('000)	3,507	4,314	5,411
Milk cows ('000)	1,628	1,896	2,526
Milk cows per farm	—	16	41
Pigs ('000)	2,955	5,533	10,656
Pigs per farm	20	73	284
Laying hens (m)	37.9	25.3	40.8
Broilers (m)	4.5	30.1	35.1

PRODUCTION VOLUME (in m kilos)	1960	1970	1983
Milk	6,838	8,238	13,210
Beef and veal†	236	343	451
Pork†	435	701	1,476
Table poultry†	56	288	397
Eggs	284	263	645

† Slaughter weight.
Source: Ministry of Agriculture and Fisheries (Foreign Agricultural Service/Information and External Relations Directorate).



Small farms blend efficiently with national organisation

Agriculture
CHARLES BATCHELOR

DUTCH AGRICULTURE has achieved spectacular rates of growth over the past 20 years. Grasping the opportunity presented by the creation of the European Common Market The Netherlands' farmers have developed a specialised and highly intensive agriculture.

Farm exports rose to around Fl 48bn (£11.7bn) in 1984 from Fl 43bn the year before and accounted for a quarter of all Dutch exports. The Netherlands comes second to the U.S. as an exporter of farm produce.

Despite the need to import large quantities of grains, derivatives and tropical produce The Netherlands has still maintained an agricultural trade surplus of Fl 15-16bn in *each of the past two years.*

With the total Dutch trade balance barely in surplus and with a substantial contribution to the balance coming from natural gas exports the farm lobby is acutely aware of agriculture's importance to the national economy.

Family farms

Mr Gerrit Braks, minister of agriculture and fisheries and himself the son of a farmer, attributes much of his country's success in this field to a combination of family farms—with the flexibility this gives—and an efficient national organisation to promote education and research.

Ninety per cent of farms are family-run, a far higher percentage than elsewhere in the EEC. The average farm size is 15 hectares. This is roughly the same as in Belgium and West Germany but below the EEC average (excluding Greece) of 17.5 hectares and well below the UK average of 69 hectares.

Dutch farms may be small but the processing and marketing of many products is handled by large and efficient co-operatives. A central organisation for the agricultural and horticultural sectors known as the "Landbouwschap" represents both employers and unions in the farming and food processing sectors and lobbies in the Hague for their interests.

The livestock sector—in particular milk and dairy production—has come to dominate Dutch agriculture. Grassland accounts for 60 per cent of cultivated land and animal husbandry for 67 per cent of the value of all agricultural production.

The total livestock herd is now about 5.4m cattle, including 2.5m milking cows — an average of 41 per farm. Their production of 13m tonnes of milk a year (in 1983) has made The Netherlands into the world's largest exporter of dairy products such as cheese, condensed milk, full milk powder and butter.

The importance of the dairy sector has meant that the problems of the EEC milk lake have had a severe impact on Dutch farmers. The knock-on effects of production curbs are beginning to be felt by the dairy processing industry, the animal feed producers and the suppliers of dairy equipment.

The Netherlands has agreed to reduce milk production by 6.6 per cent or about 800,000 tonnes from the 1983 level. To meet the needs of certain categories of farmer who are being exempted most Dutch dairy producers will however have to cut production by 8.65 per cent. Up to 11,000 of the Netherlands' 60,000 dairy farmers may be eligible for exemption, according to one estimate.

Farmers who do exceed their individual quotas will face a superlevy of 56 cents a litre on the 75 cents they are normally paid by their dairy. The remaining 19 cents payment for each litre would be insufficient to cover production costs.

"Some jobs will be lost," says Mr Braks, "but the superlevy is merely an instrument to cut volumes. The alternative was for a fall in the minimum guaranteed price for milk. We see the levy as temporary but if we don't keep prices down after the levy is lifted then production volumes will rise too high again."

If the dairy farmers have their difficulties the country's pig and poultry producers face a problem with a Rabelaisian dimension. The Netherlands' 10.6m pigs and its 41m laying hens and 35m broilers are producing too much manure.

Newspaper cartoonists have had a field day with this subject but the implications for the Dutch system of intensive farming are serious.

The 86m tonnes of manure produced annually by the pig and poultry farms contain a *number of harmful metals and* chemicals which have been seeping into the soil and now threaten the purity of the water supplies. Even if the manure were distributed throughout the country there would still be a surplus of 18m tonnes above what the soil could safely absorb.

Parliament has been considering legislation to protect the soil and control the production of manure, but signs that farmers were accelerating investment plans to evade the possible threat of production curbs forced Mr Braks to act swiftly last November.

Immediate ban

He ordered an immediate ban on investments intended to expand production while ways were found to reduce the harmful concentrations. Altering the composition of animal feeds is one way of preventing damage to the environment that is being studied. Mr Braks' measure *brought a storm of protest from* farmers.

The Netherlands' ample supplies of natural gas have made up for some of the limitations of its climate and the area of land under glass has doubled over the past 30 years to nearly 9,000 hectares. Salad vegetables, particularly tomatoes, cucumbers and lettuce, are grown while cut flowers and ornamental plants have increased in importance.

The price paid by Dutch glass*house growers has long been a* bone of contention with other EEC countries. The Landbouwschap, which negotiates contracts for the growers collectively with Nederlandse Gasunie, the gas supply company, says the Dutch need cheap supplies of gas.

Growers in West Germany and Belgium do not face such strict environmental controls so can use cheaper coal to heat their glasshouses, it argues.

The Landbouwschap is trying to negotiate a gas price linked either to coal or to a basket of fuels rather than simply to oil, which is priced in expensive dollars.

Profile: Dr. Wubbo Ockels—Dutch Astronaut — By Peter Spinks

Driven by constant need for stimulation

IT IS PLAIN to see that Dr Wubbo Ockels, the first and only Dutch astronaut, relishes every minute of his job. Selected by the European Space Agency (ESA) from 2,000 candidates, Dr Ockels has waited and worked for seven years to fly for a week on board Europe's second orbiting space laboratory expected to be launched with the U.S. space shuttle in October.

A "spaceman wanted" advertisement, on the notice board of the Nuclear Physics Accelerator Institute in Groningen, where Dr Ockels was completing his doctorate in physics and mathematics, appealed to his sense of humour and to his instinct for "trying new things." So he wrote off despite knowing nothing of space research and having fallen asleep during the television broadcast of the Apollo Moon landing.

After extensive medical and phsychological testing, the Dutchman was finally chosen to undergo payload specialist training in Germany, France and the United States.

Along with two Germans, his task will be to conduct 60 space lab experiments in fields as wide-ranging as navigation, medical physiology, and physics—"the multi disciplinary aspect is fascinating but you have to do other scientists' experiments, and not your own," says the physicist who has a penchant for turning knobs and generally tinkering in the laboratory.

His former university colleagues, however, seem more impressed by the glamour of his job than by the actual science involved. To some *extent space lab science was* created to justify political and commercial goals, he confesses, adding that the scientists are "piggy backing on the total space effort," which, including man hours, has cost over U.S.$1bn since 1974.

Critics argue that more useful science could be done on earth for a fraction of that cost, but Dr Ockels reminds that results from experiments performed on the first space lab mission were "scientifically flabbergasting."

Weightlessness in space allows some processes such as the diffusion of liquids or gases to be studied free from the distortion of gravity, while alloys of differing densities can be mixed consistently, without the formation of layers. Pharmaceutical concerns, meanwhile, are interested in gravity-free purification techniques which boost output 700-fold and improve quality by a factor of ten.

One space lab experiment will grow certain key semiconductor crystals better, faster and cheaper in space, than is possible on earth where it costs thousands of dollars to produce a single gram.

As most of these experiments are fully automated and require little other than being started or stopped the question arises as to the needs for such highly qualified scientists when laboratory technicians may have sufficed. "You could say in retrospect, but in science we often cannot predict events," says Dr Ockels, adding that, in evolutionary terms "being exposed to 0-gravity effects could be as significant to the life sciences as when the monkeys jumped out of the trees and homo sapiens walked upright."

Space lab will carry several life science projects, for *which the three astronauts* will act as subjects. For example, by accelerating a rail-borne space sledge they will investigate the gravity-free reaction of the body's vestibular system which is central to understanding travel sickness.

Needless to say travel sickness does not bother Dr Ockels—as his two intensive years of astronaut training at NASA headquarters in *Houston proved conclusively.* He recalls vividly the 0-g flights with an aircraft which made repeated parabolas in the sky—climbing fast almost vertically, before plummeting like a bullet.

"One moment you are pressed hard against our chair at 2-G, and then suddenly, you seem to jump out of it with lightness" he drawls in a convincing American accent.

Indeed, the confident Dr Ockels who positively bounds with energy is restless in his constant need for stimulation, and change. This unusual combination for a scientist is perhaps what led to his applying for and getting the job. In fact, he suggests that ESA made its final selection on the basis of personality criteria, rather than on expertise alone.

As part of the ESA selection process from which Dr Wubbo Ockels (pictured left) was successful, candidates were submitted to an exercise stress test (pictured above). This was carried out at the Institute of Aviation Medicine, part of the Royal Aircraft Establishment at Farnborough in the UK. Dr Ockels believes that personality also played its part in his eventual selection, rather than scientific and physical expertise alone. Clearly committed to space research, he does not envisage re-entering the "very deep but very narrow" academic world of nuclear physics, having thrived on the adrenolin the past few years have generated. "The highs just keep getting higher," he quips.

The vital spark of Eindhoven

By Charles Batchelor

Eindhoven's World Trade Centre for Electronics, one of four main initiatives to stimulate the local economy

EINDHOVEN has been shaped by the presence of one company, the international electronics giant Philips, to a degree unique in the Netherlands.

The lights which shine over the city 20-hours a day from the tower of the company's main lamp testing laboratory are the most visible symbol of that presence. But through its efforts in early decades of this century to create housing, schools, medical care and sports facilities for its rapidly growing workforce Philips has developed a multitude of close links with the city.

The corporate paternalism of the founding Philips brothers, Gerard and Anton, has long since made way for less binding ties. Many of the original services have been taken over by the city; the homes still owned by Philips trusts are allocated by the city's housing department to whoever is next on the housing list; and the extensive Philips sports grounds are being transferred to the city's control.

This is something of a mixed blessing. With the facilities come the running costs and even prosperous Eindhoven has seen its budgets cut as a result of the Government's austerity programmes of the past few years.

While the company has taken the view that patronage must give way to profits in the 1980s it still maintains its sponsorship of the football club PSV Eindhoven—PSV stands for Philips Sports Association—backs a number of other sports in the city and maintains one of its two public theatres.

Despite the important role played by Philips, Eindhoven—the Netherland's fifth largest city with 195,000 inhabitants—has never been a company town.

This may own something to the fact that when the Philips brothers set up their first factory in 1891 they were outsiders, non-catholic newcomers in a largely catholic city. Equally importantly the company soon grew beyond Indhoven, and beyond the Netherlands, to become a worldwide concern.

Despite the reorganisations of the past few years Philips still employs 30,000 people in Eindhoven, many of them highly paid researchers, planners and senior headquarters staff, out of a total of 75,000 in the Netherlands and 340,000 worldwide.

The city and the surrounding region have lost jobs, however, as manufacturing capacity has been moved elsewhere.

Philips seems set for its fifth consecutive annual increase in profits in 1984 and appears to have regained a sense of purpose after losing its way in the late 1970s.

It is now engaged in a number of new ventures in the electronics field which should directly benefit its home town in terms of jobs. The most ambitious is a Fl2bn (£564m) joint venture with Siemens of West Germany to develop more powerful microchips.

The city and local business interests have launched four initiatives to stimulate the local economy:

- A World Trade Centre for Electronics, part of the New York-based world trade centres organisation, was established in 1982 to promote the industry.
- A second venture is the Centre for Micro-Electronics, which advises companies on ways of applying electronics technology. It helps with feasibility studies and the development of hardware and software.
- A Regional Economic Development Authority (REDE) has been set up by Eindhoven and the surrounding municipalities to promote industry and attract new companies to the region.
- Finally Eindhoven Airport has been modernised at a cost of Fl160m to provide a new terminal and realign and extend the runway. Philips has separate facilities for its own very busy corporate fleet of business jets.

One fear of businessmen and civic leaders in Eindhoven is that the post-war industrial success of the town will blind politicians and officials in The Hague to the problems it now faces. The nearby town of Helmond for example can provide investment incentives of up to 25 per cent and has attracted businesses from Eindhoven where the maximum aid figure is 15 per cent.

While Eindhoven has been used to a lower unemployment rate than the national average it has recently been matching the national jobless figure of around 17 per cent.

The electronics industry now accounts for about 35,000 jobs or half the total industrial workforce. Traditionally though the city has a broad manufacturing base.

Daf Trucks, with 6,300 local employees, is the second largest employer in the area. A privately-owned group making about 15,000 trucks a year Daf has had to fight hard as one of the smaller European truck producers.

Eindhoven was once a major textile town but the flight of much of this industry to third world countries has meant that even when companies have kept their headquarters locally most of the jobs have been sent abroad. Employment in the textile industry is now around 6,000, down from 18,000 in 1960.

The destruction of much of the centre by both Allied and German action in World War II and its subsequent rebuilding have compounded this sense of newness.

Dr Gilles Borrie, burgomaster of Eindhoven

The pleasant if undistinguished modern town centre has become an important shopping and cultural magnet for a large part of the southern Netherlands. The Philips Evoluon, a flying saucer-shaped museum of modern technology, draws more than 400,000 visitors annually while the Van Abbemuseum has an important collection of modern art.

With 75 per cent of the population Roman Catholic the Christian Democratic Party (CDA), the last of the major religious parties active on a national basis, plays an important role in local politics. The CDA has 17 of the 39 seats on the council and three of the five places on the executive committee of aldermen.

It is perhaps surprising therefore that Dr Gilles Borrie, the burgomaster of Eindhoven, is a protestant and a member of the Dutch Labour Party. Burgomasters in the larger Dutch towns are appointed by the Crown with one eye to maintaining a balance between the main national political parties.

Endhoven has the reputation for pursuing fairly sober and businesslike politics and of avoiding the more heated party wranglings of cities like Amsterdam or Rotterdam.

As Dr Borrie says, "When I came to Eindhoven five years ago Philips was cutting back and moving jobs away. Now developments are more favourable and unemployment is falling more quickly than in the rest of the country. The council has regular meetings with Philips to discus developments—as we do with Daf. If things are going well for Philips then relations are smooth."

Charles Batchelor reports on efforts to change the image of Holland's major port

Putting the heart back into Rotterdam

Statue on Rottherham's waterfront (pictured right) depicts the city as a man without a heart crying to the sky. This year a three-month long festival entitled "A heart for the city" will be held

STEP OUT of Rotterdam's Central Railway Station and you are confronted with what appears to be an oil tanker, heading up the station approach between the trams.

Walk a little closer and you realise that it is a ship's bridge, complete with lifeboat and radar aerials, which has been set down on a large traffic island. Its oil-carrying days long over, the Esso Port Jerome now serves as a home and rehearsal room for the Rotterdam Boys' Choir.

The Port Jerome provides an imaginative answer to two of the problems facing the world's largest port and the Netherlands' second city. How does it cope with reduced cargo tonnages—largely the result of sharply lower oil volumes? And how does it humanise the rather bare modern city centre which arose from the rubble of the German bombing raid of 1940?

Not all of Rotterdam's difficulties can be solved so neatly. The virtual disappearance of one of the pillars of the city's economy—merchant ship building—has contributed to an unemployment rate of around 25 per cent—well above the national average of 17 per cent.

From its position of motor of the Dutch economy during the 1960s and 1970s Rotterdam has found itself struggling during the 1980s to keep up with the rest of the country.

There are signs that the corner has been turned. Cargo volumes handled by the port rose just over 5 per cent to 183m tonnes in the first nine months of 1984 and this upturn is believed to have been maintained in the full year.

In the whole of 1983 cargo volume fell 7 per cent to 233m tonnes, the fourth annual decline since the peak year of 1979 when around 320m tonnes were shipped. Employment in the port has fallen from around 12,500 to 10,000 over that period.

The harbour authorities hope for a continued gradual increase in business over the next few years but they are conscious of their vulnerability to factors beyond their control, such as the strength of the German economy and currency movements.

They are nevertheless heartened by the breadth of the recovery which includes crude oil volumes up 8.5 per cent to nearly 61m tonnes in the first nine months of 1984, ores up 26 per cent and coal up 32 per cent.

Even the general cargo sector, which has undergone an intensive reorganisation, rose 6 per cent.

Investment in improving port facilties has continued. The depth of the approach channel was increased from 70 to 72 feet in 1984 and a further deepening to 75 feet to allow the largest ore-carriers to dock is under consideration. A new container terminal has been opened on the Maasblakte, the westernmost harbour basin, with annual capacity of 500,000 containers and a potential for 2m New coal and fruit terminals are also planned.

Rotterdam is also keen to exploit its role as a centre for trade. An academic study of ways of computerising the paper-work associated with freight shipments is being developed further to see if Rotterdam could become the centre of a worldwide freight communications network.

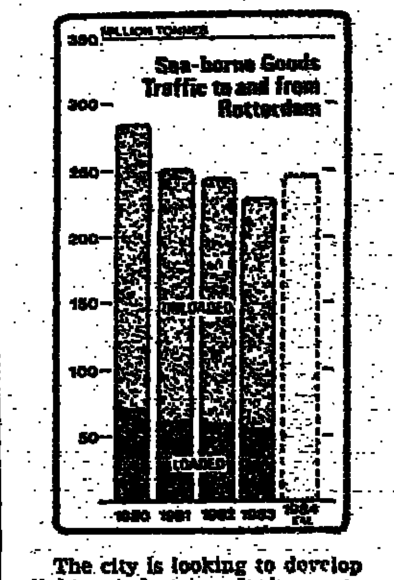
Links between the computers of, say, a U.S. supplier of equipment to a company in Germany and the shipping company could simplify documentation and customs handling and allow the supplier to know the progress of his consignment at any time.

After several years of contraction in the petrochemicals industry there are also plans for major investments in some of the large refineries which line the banks of the Maas Estuary between Rotterdam and the sea.

Esso is building a "flexicoker" at its Pernis refinery to produce more light derivatives from the heaviest of crude oils at a cost of more than Fl 2bn ($564m) while Shell plans a similar project at its nearby refinery for a total cost of Fl 2.5bn.

The problems of Rijn-Schelde-Verolme, once The Netherlands' largest shipbuilder, resulted in the closure of all of Rotterdam's large merchant shipbuilding yards, though naval shipbuilding and ship repair work continue.

Mr Hans Horsting, secretary of the Rotterdam Chamber of Commerce, believes the shakeout in this sector of industry has now finished and sees signs of improvement in specialised areas such as offshore construction.



The city is looking to develop lighter industries. It hopes to capitalise on the reputation of the medical faculty of Rotterdam's Erasmus University with a permanent exhibition hall for the medical equipment industry.

Rotterdam was rebuilt on a generous scale in the post-war years with extensive pedestrian areas as well as broad six-lane highways in the city centre. It inevitably lacks the intimacy of older Dutch cities such as Amsterdam, Leiden and The Hague.

An ambitious 15-year development programme was recently unveiled to bring more life to the centre and create more homes, hotels, offices and a casino. Only 12,000 of the city's 560,000 inhabitants live in its centre at present.

The decision to allow new office building in the centre is a reversal of previous policies aimed at dispersing white collar jobs to the suburbs. The council has now realised that the firms it was seeking to attract demanded the facilities of the city centre for their staff.

The most striking example of this change of attitude is the construction of a 20-storey office tower block above the 50-year old Stock Exchange building.

Profile: Harry Mulisch

Flights of fantasy in down to earth style

By Peter Spinks

FOR SOMEONE generally considered to be a top Dutch author, Harry Mulisch is surprisingly un-Dutch. Unlike the rather naturalistic works of his literary contemporaries, Mr Mulisch's novels, essays and poems soar with flights of fancy, although his down to earth style is engagingly clear and crisp.

Born in Haarlem in 1927 he considered himself "a descendant of an international pot pourri of nomads." During World War II his Czech father became, through no intention of his own, the personnel director of a German-controlled bank, where Jews were required to deposit their valuables before being gassed. His Jewish mother meanwhile got divorced but continued living nearby.

Recalling his youth, when lunching with his father among Nazis and dining with his mother among Jews he says: "It is not so much that I went through the war, I am the Second World War."

It was in the difficult years after 1945, that Mr Mulisch began his writing career with a short story. He went on to produce a novel, articles and a play but dissatisfied with the results, he burned the lot.

After a novel won the Rein Geerlings Prize in 1951, however, his career blossomed with successful stories, novels, plays, operas, an autobiography and countless contributions to radio and television.

More than 50 titles and several best sellers have so far resulted in a knighthood and ten literary awards, including the coveted State Prize in 1977.

"These mean a lot so long as you don't have them," suggesting that even if tomorrow he won the Nobel prize for literature, he would think "so what" in a few days.

Not a writer with a single world message, Mr Mulisch prefers seemingly unrelated subjects of personal concern to him. These encompass such diverse topics as Dutch spelling reforms, the 1960s Provo movement and a revealing study of the eccentric sexologist Wilhelm Reich. Such vicarious eclecticism inspired an ambitious philosophical work of over 500 pages entitled The Composition of the World, in which the Mulisch world view is presented paradoxically.

Two of Mr Mulisch's most controversial non-fiction works concern communism and fascism. The first relates to his talks with Fidel Castro in post-revolution Cuba. "Before Castro there was a free press but the people could not read," he observed. "Now they can read but the press is no longer free."

The seond work, for which he travelled to Jerusalem, West Berlin and Auschwitz present his account of the Eichmann trial. His conclusion is that Eichmann was not a fiendish criminal but just an ordinary man. "He was the complete opposite of Castro, who is a very extraordinary man," says Mr Mulisch, suggesting that "if Eichmann were the devil he was portrayed to be you could pick up all devils and shoot them."

Harry Mulisch, "a desendant of an international pot pourri of nomads"

In his book Yesterday's Future the author is again pre-occupied with National Socialism but this time examining the kind of Fascist Utopia which might have existed had Hitler won the war. But the book was a failure he feels because a novel must develop and in the Empire of a Thousand Years "developments come to a standstill.

"So, the moment I began to write, a distorted image of that world emerged."

Several Mulisch novels have been translated from Dutch into English and his most recent, The Assault, will be published shortly in English. The Dutch version, which sold over 200,000 copies within a year—a record for the Netherlands—tells the story of a boy who meets up later in life with those who played some part in his early wartime experiences.

Mr Mulisch says that Dutch literature has not aroused much international interest partly through the "tulips, windmills and wooden shoes stereotype of the Netherlands. But, welcoming the foreign publicity given recently, to Amsterdam's drugs and sex trade, he says that readers abroad are at last recognising that "this is a real country with real problems."

Although his works focus attention on neither drugs nor sex Two Women, which has been filmed in English with Anthony Perkins, deals indirectly with lesbianism in Amsterdam. It describes an affair between Laura, the narrator, and a younger woman, Sylvia. Their idyllic relationship seems shattered when Sylvia apparently elopes with Laura's ex-husband, but this is a necessary part of her desire to give her lover an "impossible" gift — the child Laura could not conceive herself.

As in most of his works Mr Mulisch avoids lascivious drooling while conveying the function of passion as an escape from the mundane.

As with Dutch painters, many Dutch writers appear more pre-occupied with style, than with content yet Harry Mulisch is skilful at adding surface detail in a way which leaves the underlying emotional and intellectual impact of his work unshaken.

That the Dutch are known better for painting than for writing, he explains, may reflect their essential materialism, and preference for things practical rather than intellectual. "In Holland fantasy and vision are still regarded with suspicion because of the protestant conviction that such qualities are the work of the devil," he says, "but as Christianity disappears here, so things get better."